Austria	Sch22	Indonesia	Rp3100	Portugal	Esc100
Bahrain	Din0.650	Israel	NIS3.50	S.Arabia	Rls6.00
Belgium	BFr48	Italy	L1500	Singapore	S$4.10
Canada	C$1.00	Japan	Y500	Spain	Pta125
Cyprus	C£0.75	Jordan	Fils500	Sri Lanka	Rup30
Denmark	DKr9.00	Kuwait	Fils500	Sweden	SKr8.00
Egypt	E£2.25	Lebanon	$L125.00	Switzerland	SFr2.20
Finland	Fmk7.00	Luxembourg	LFr48	Taiwan	NT$65
France	FFr6.50	Malaysia	Rlnt4.25	Thailand	Bht50
Germany	DM2.20	Mexico	Peso300	Tunisia	Din0.800
Greece	Dr100	Morocco	Dh6.00	Turkey	L500
Hong Kong	HK$12	Netherlands	Fl3.00	UAE	Dh6.50
India	Rup15	Norway	NKr8.00	USA	$1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,398 Wednesday November 25 1987 D 8523 A

Laos: Shaking free of textbook Marxism, Page 26

World News

Italy's trade unions call for general strike

Italian trade unions put their authority to a severe test and called for a four-hour general strike today against the Government's 1988 budget.

Air services, ports and railways were expected to be disrupted and no newspapers were to be printed. Civil servants, local authority workers, school and university teachers were expected to stay at home all day while firemen and ambulancemen were to stop work for just four hours. Page 2

IRA escapers held

Two Irish Republican Army men involved in the mass break-out from Northern Ireland's Maze Prison in 1983 were arrested in the Irish midlands during the continuing hunt on both sides of the border for a major terrorist arsenal. The British Foreign Office said earlier that Libya had sent four shiploads of weapons and explosives to the IRA. **Extradition move, Page 26.**

US to cut UN debt

The US agreed to pay the UN at least $90m next month to reduce its arrears of more than $342m in assessed contributions. **Page 4**

China's acting Premier

Li Peng, adopted son of the late premier Zhou Enlai and a Soviet-trained technocrat, was appointed China's acting Prime Minister. **Page 3**

California earthquakes

Two strong earthquakes shook southern California within 12 hours and were felt as far away as Arizona and northern Mexico, but there were no reports of injuries or serious damage.

Sudanese food crisis

Some 3m people in southern Sudan were facing starvation, the Sudanese People's Liberation Army said, calling for international aid.

Cuban jails riot toll

Cuban prison inmates fearing deportation to their homeland refused to release any of their 75 hostages in Atlanta, Georgia, amid reports that as many as six people had died during the uprising. **Page 4**

Western Sahara truce

Polisario guerrillas fighting Morocco for control of the Western Sahara declared a unilateral truce.

New press curbs

One month after Malaysia banned three newspapers as part of a security crackdown, parliament was expected to approve press curbs that would prevent the courts from challenging publishing bans.

Iran pollution alert

Iran's meteorological organisation warned that air pollution in Tehran had risen to dangerous levels and urged children, old people and those with respiratory diseases in the capital to stay indoors for 24 hours.

Salvador talks urged

Rebel leader Guillermo Ungo, who returned to El Salvador on Monday after seven years in exile, proposed fresh talks with the US-backed Government on the country's civil war. **Politics of fear, Page 4**

Gulf war plea

Presidents Nicolae Ceausescu of Romania and Hosni Mubarak of Egypt called for negotiations to end the Gulf war and Middle East conflict on the second day of the Romanian leader's state visit to Egypt. **Tokyo talks, Page 3**

Vive la difference

The growing use of English in French sport had reached an obscene level of excess, the Academie Francaise ruled, and a crackdown on the use of "Franglais" was solemnly announced on French television. **Page 26**

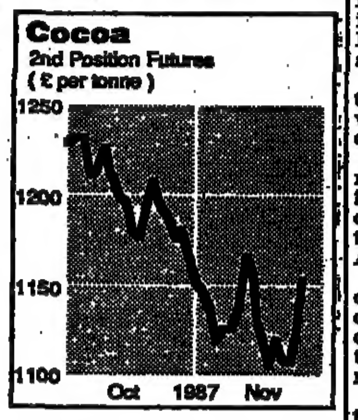
Business Summary

Canadian Ford in deal with Samcor unit

FORD of Canada has disposed of its 42 per cent stake in the South African motor company, Samcor, after 10 months of complex negotiations with black trade unions. This leaves 24 per cent of the equity in the hands of a worker-controlled trust. **Page 26**

RTZ, mining, energy and industrial conglomerate formerly known as Rio Tinto-Zinc, launched a cash-only bid for **MK Electric Group**, valuing the electrical accessories and door-bell manufacturer at £206.5m ($361m). **Page 27**

COCOA prices rallied on the London futures market as speculators covered against earlier "short" sales made during the fall



to recent five-year lows. The March position closed at £1,152.50 a tonne, up £24 on the day. **Page 34**

ALLIED LYONS, UK drinks and food group which owns 51 per cent of Hiram Walker, Canadian drinks business, is to buy the remaining share from GW Utilities in a deal worth $572m (£322m). **Page 26**

WALL STREET: The Dow Jones Industrial average closed up 40.45 at 1963.53. **Page 48**

LONDON: Cheered by news of interest cuts in Europe and Wall Street's stronger opening, the FT-SE 100 index rose 23.1 to 1,689.1 and the FT Ordinary added 31.4 to 1,332.5. **Page 48**

TOKYO: Post-holiday trading saw modest price rises as the market reacted positively to the US budget deficit reduction deal. The Nikkei average gained 150.46 to 22,856.02. **Page 48**

BAYER, large West German chemicals group, boosted pre-tax profits by 7.5 per cent to DM2.41bn ($1.44bn) in the first nine months. **Page 28**

FIRST CHICAGO, parent company of First National Bank of Chicago, has signed a letter of intent to acquire Gary-Wheaton, US bank holding company, for $136.4m of newly issued common stock. **Page 27**

SGS THOMSON Microelectronics, joint semiconductor venture between Thomson of France and Stet of Italy, forecasts losses of FFr600m ($106m) this year due to restructuring costs. **Page 28**

BANQUE INDOSUEZ, large French bank owned by recently privatised Suez financial group, is negotiating with **Istituto San Paolo di Torino** to forge major new links with the Italian public banking institution. **Page 28**

SANTA FE Southern Pacific, large US transport and resources group ordered to dispose of one of its railroads, has received offers of more than $900m for the Southern Pacific rail line between St Louis and Oregon. **Page 27**

UNITED BREWERIES of Denmark increased its pre-tax profits from DKr764m to DKr817m ($133.1m) in the year ended September. **Page 28**

THE PHILIPPINES' commercial creditor banks are expected to sign a rescheduling agreement covering $13.2bn of debt by a new deadline of December 22. **Page 3**

NATIONAL IRANIAN Oil Company has bowed to pressure from two Japanese oil companies to cut its crude prices to them. NIOC's official selling price in December will be reduced by about $1 per barrel. **Page 3**

US, Soviet Union agree treaty to scrap missiles

BY ROBERT MAUTHNER AND WILLIAM DULLFORCE IN GENEVA

THE US and the Soviet Union last night agreed the final details of a treaty which will scrap their shorter and medium-range nuclear missiles throughout the world.

The treaty, scheduled to be signed by President Ronald Reagan and Mr Mikhail Gorbachev at a Washington summit meeting in two weeks, is the first under which the superpowers will reduce the number of missiles. Earlier agreements had aimed only at limiting increases.

After two days of suspense, Mr George Shultz, US Secretary of State, and Mr Eduard Shevardnadze, Soviet Foreign Minister, appeared outside the US mission in Geneva at 5pm yesterday to shake hands before television cameras.

"We have completed agreement on all the outstanding INF issues. All that remains is treaty language which others will be able to do," Mr Shultz said.

Mr Shevardnadze said a historic task had been accomplished which would be in the interests of all nations.

The two men returned to the mission to conclude preparations for the summit, which will also cover regional conflicts such as those in the Middle East and Afghanistan.

All the various types of verification were in the treaty. "Each contry has had to renounce part of its soverignty to allow inspection of its territory," Mr Shevardnadze said later.

According to Mr Shultz a system of "enhanced national technical means" of controlling compliance would come into force for the first three years of the treaty, during which the missiles would be dismantled and destroyed.

Each country would have the right to inspection by challenge - the crucial last issue to be settled. Each would be allowed 20 inspections a year for the first three years of so-called supsected sites.

For the next five years 15 inspections a year would be allowed and 10 a year for the subsequent five.

Suspected sites were defined by Mr Shultz as those where missiles had been based and had since been destroyed and, in addition, sites where "similar systems are stored".

Satisfactory arrangements had been worked out to meet Soviet demands that it be allowed to inspect European bases where US missiles are currently deployed for 10 years after the missiles' destruction, Mr Shultz said.

These arrangements would be spelt out in an exchange of notes with each country. Their basic sovereignty had been safeguard, Mr Shultz said.

Soviet inspectors will be given access to some US missile production sites in return for Soviet agreement to allow inspection of a plant, at which long-range SS25 missiles are assembled. But Mr Shultz said the exact US plants would be announced today.

The Secretary of State said that while the system of verifying proper implementation of treaty provisions was "not 100 per cent perfect", it nevertheless gave the US a "very comfortable feeling" that no cheating would take place.

Mr Shevardnadze said he had no doubt that the summit would be a success and that the next step would be towards the total abolition of nuclear weapons.

US and Soviet leaders have both recently stressed their readiness to work for a second treaty to cut back much larger arsenals of long-range strategic nuclear weapons.

Under the INF treaty the powers will dismantle and destroy over a period of three years missiles carrying almost 2,000 warheads with ranges from 500 kms to 5,000 kms. The larger part of these are on the Soviet side.

The Soviet arsenal scheduled for scrapping includes 441 triple-warheaded SS20s, the mobile weapon whose appearance in the 1970s was seen as a special threat to Western Europe. They triggered a Nato response to deploy 572 US Pershing 2 and cruise missiles in Europe. The 108 Pershings and 282 ground-based cruise missiles so far deployed will be destroyed.

Effectively only a small portion, between 3 and 4 per cent, of the superpowers' total nuclear arsenals will be done away with.

Until the last moment the crucial issue had been the right to inspect on challenge so-called suspected sites - at which one side believed the other might be cheating.

At the end of the first day's talks no definition of a suspected site had yet been agreed, US officials said.

George Shultz (left) and Eduard Shevardnadze after clinching the deal yesterday

Interest rate cut boosts $ and equities

BY SIMON HOLBERTON IN LONDON AND JANET BUSH IN NEW YORK

A SERIES of co-ordinated cuts in key European interest rates yesterday boosted the dollar on foreign exchange markets in Europe, but the dollar lost ground later in New York.

The interest rate cuts lent support to major equity markets, with both London and New York making gains. Wall Street, however, closed below the day's peak as the dollar became weaker.

By the close of trading in Europe the US currency had risen almost 2 pfennigs on the day to close in London at DM1.6875. Analysts in London said sentiment had been improved by the European interest rate moves but that trading was modest and concern over US economic policy-making persisted.

In North America, currency dealers were not convinced that the European interest rate cuts were more than a token gesture and worries persisted about the US budget accord and prospects for a new international currency understanding.

Share prices in London and New York rose in response to the cuts in interest rates and the dollar's early recovery.

Analysts in London said sentiment had been helped by better than expected trade figures, although the volume of shares was moderate. The FT-SE 100 share index closed 31.4 higher at 1,689.1.

On Wall Street, the Dow Jones Industrial Average closed 40.45 higher at 1,963.53, after being more than 50 points ahead earlier.

West Germany led the round of interest rate cuts, reducing its securities repurchase rate - the mechanism by which the central bank controls short-term interest rates - by 0.25 percentage points to an all-time low of 3.25 per cent. The decision to cut this rate was taken last Thursday at a regular meeting of the Bundesbank's governing board.

France and the Netherlands followed, reducing their key money market intervention rates. The Bank of France cut two of its money market interest rates by ¼ percentage point and the Dutch central bank cut three of its rates by the same amount.

The French and Dutch moves were made to preserve the existing parities within the exchange rate mechanism of the European Monetary System which have been under strain since the D-Mark began to strengthen three weeks ago.

European central bankers said the rate reductions should be seen as an attempt to support the foreign exchange market at current levels and give a modest boost to economic activity in Europe. They were not an endorsement of last Friday's agreement between the White House and Congress to cut the US budget deficit.

In London the dollar closed at DM1.6875 compared with DM1.6680 on Monday, and at Y135.50 compared with Y134.65. It finished in New York at DM1.6695 and it held at Y134.65.

The pound closed at $1.7725 compared with $1.79 on Monday and at DM2.99 compared with DM2.9850 previously. In New York, it closed at $1.7925.

European rate cuts Page 2; US economic growth, Lex, Page 26; currencies, equities, capital markets, Section II

Reagan vows to keep Star Wars

BY LIONEL BARBER IN WASHINGTON

PRESIDENT Ronald Reagan yesterday pledged that he would not abandon his Star Wars space defence system as part of a future strategic arms deal with the Soviet Union.

Mr Reagan called the SDI programme a "moral endeavour," and said one of its main attractions was to deter the Soviet Union from cheating in a pact to reduce offensive nuclear weapons.

Mr Reagan was speaking in Denver only hours after Mr George Shultz, the US Secretary of State, and his Soviet counterpart, Mr Eduard Shevardnadze announced in Geneva that the superpowers had finally reached agreement on a treaty to abolish their medium range nuclear missile (INF) arsenals.

The INF pact is widely seen as opening the way for a second arms deal whereby the US and Soviet Union would reduce their offensive strategic ballistic missiles by 50 per cent.

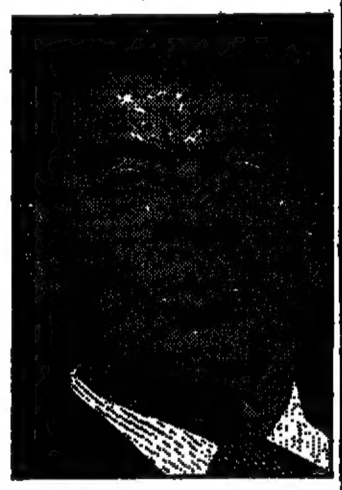
Mr Reagan and the Soviet leader Mr Gorbachev are to discuss strategic weapons at the Washington summit next month.

Mr Reagan said: "Let there be no doubt, giving up the Strategic Defence Initiative and the protection it will provide us is too high a price for any agreement ... it will not be traded away."

Mr Reagan's opponents have suggested that concessions on SDI could be used as a bargaining chip with the Soviet Union, while others argue that SDI testing and deployment would violate the Anti Ballistic Missile Treaty signed by the superpowers in 1972.

Mr Reagan - who is under fire from conservatives for agreeing to an INF pact and next month's summit, said: "SDI is not a weapon of war ... it is totally within the ABM treaty."

The President also said that any agreement with Moscow would not be built on trust, but on verification, reciprocity and realism. "SDI underwrites our efforts to achieve offensive nuclear reduction agreements."



President Reagan: Sees SDI as "moral endeavour".

Lawson says US must be ready to lift rates

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT, IN LONDON

MR NIGEL LAWSON, the British Chancellor of the Exchequer, said yesterday that a firm US commitment to defend the dollar was the prerequisite for an accord among leading industrial nations to rebuild their cooperative economic strategy.

Washington must be prepared to raise interest rates if necessary to support the US currency, he said.

Unless all the Group of Seven nations were prepared "to contribute wholeheartedly" to the dollar's stabilisation, there would be little point in holding ministerial talks. An "exaggerated" decline would threaten both economic activity and world trade.

Mr Lawson's comments are thought to reflect continuing concern in Europe that the US may be ready to allow the dollar to fall further before agreeing to defend any particular level.

Speaking at a lunch organised by the American and Canadian chambers of commerce in the UK, he was markedly less upbeat about the prospects for a quick meeting of the G7 than he has been in recent weeks.

He still hoped that governments could agree the basis for talks before Christmas, but repeatedly emphasised the need for Washington to recognise the dangers of a further slide in the dollar's value.

"Interest rates in the US will have to be set at a level that can both support the dollar and finance the (budget) deficit as

Continued on Page 26

EC president threatens to take over deadlocked farm talks

BY TIM DICKSON AND QUENTIN PEEL IN BRUSSELS

EUROPEAN Community farm ministers were yesterday given an ultimatum: to agree on drastic reforms to the Common Agricultural Policy by tomorrow, or see the negotiations taken out of their hands.

Mr Uffe Ellemann-Jensen, the Danish Foreign Minister and current president of the EC Council of Ministers, said they had until Thursday to break their deadlock over new price and production limits, which are at the heart of a total EC budget reform package to be reviewed at an international summit in Copenhagen on December 4 and 5.

He said the Danish presidency would issue a global compromise on all aspects of the budget package tomorrow - regardless of whether the farm ministers reached agreement or not. That package will be discussed by the foreign ministers at an emergency meeting at the weekend, in a desperate final effort to reduce the negotiations to manageable proportions for the summit.

His warning came after the agriculture ministers had spent an entire night in fruitless debate and then spent most of the afternoon discussing when to meet again.

At the heart of the dispute is the mounting cost of the cereals and oilseeds sectors and the sharply differing solutions to bring this under control. Britain, the Netherlands and the Commission continue to press for significant price cuts while, at the other extreme, West Germany is firmly blocking the package.

France, which until now was seen as willing to go along with the Commission's market-oriented approach, has now thrown the debate into considerable confusion by insisting on a complex alternative for all arable crops.

Mr Ellemann-Jensen said the entire package of budget reforms to be presented to the EC leaders at their Copenhagen summit next week was being threatened by the agriculture ministers' lack of progress.

Sir Geoffrey Howe, the British Foreign Secretary, yesterday repeated *the UK's absolute insistence* that no budget settlement at Copenhagen would be possible without "a complete set of stabilisers, covering the whole range of the CAP."

He expressed growing British concern that the latest Danish proposals were actually weakening the farm reform package too much on cereals, oilseeds and wine.

The foreign ministers made slow but appreciable progress yesterday on other key aspects of the package, including a new basis for calculating budget contributions to Brussels.

All the member states have now virtually accepted that there will be a new "fourth resource" added to the EC finances, based on the gross national product (GNP) of member states, in addition to customs duties, agricultural levies and the existing payments linked to the value added tax(VAT).

The GNP base is more fair than the present VAT base in reflecting national prosperity. As a result, it would help reduce the British net contribution over time - but would shift the burden of financing more on to countries like Italy, the Netherlands, Denmark and West Germany.

Italy, in particular, is resisting any major switch away from the VAT base. The agriculture ministers agreed to meet again this evening in a last attempt to settle their differences, with top officials set to meet during the day.

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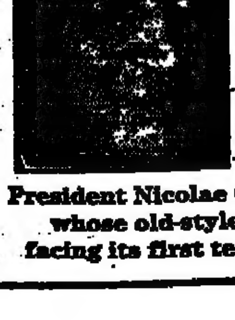


BITTER CLASH OF CULTURES SCARS ROMANIA

President Nicolae Ceausescu, whose old-style rule is facing its first test, Page 2

EUROPEAN NEWS

Italian unions gamble on general strike

BY JOHN WYLES IN ROME

ITALY'S TRADE unions are putting their authority to a severe test today with a call for a four-hour general strike in protest at the Government's 1988 budget.

Civil servants and local authority workers, frequently flexible in their approach to working hours, will stay at home all day. School and university teachers will do the same, while ambulancemen and firemen will stop for just four hours, although assuring emergency services.

Air services, ports and railways are expecting disruption. No newspapers will be printed this morning. Radio and television ran abbreviated news bulletins yesterday as journalists staged their protest a day in advance.

But these sectors are mostly the core of union strength and it will be the response in manufacturing industry and services which will be closely scrutinised for the extent of union support. The last four-hour general strike call in 1984 attracted only minorities in Fiat plants and a generally patchy response elsewhere.

The strike is seen in some quarters as a somewhat risky attempt by the three trade union confederations to counter growing evidence of political and industrial weakness. On the one hand, their budget demands have been dismissed by a Government which is itself one of the weakest of recent years. On the other, the unions' authority is being defied by rank-and-file members in air services and rejected completely by some public service employees in schools and on the railways.

The unions know that there is no chance of the Government amending its budget proposals, so their action is tilted at the parliamentary committees which are capable of altering their shape. They are claiming that ministers have taken the wrong route in their attempt to reduce the public deficit from this year's L109,500bn($50bn) to L103,500bn.

They say that the net effect will be recessive because of cuts in welfare spending and because of the failure to honour a promise to reduce income tax rates. The Government's principal focus, say the unions, should be on attacking tax evasion and cutting out waste.

A second motive for the strike may also be to issue a warning against any attempt to bring the law into regulating public sector strikes. Air and rail services have been frequently disrupted in the past few months by mostly unofficial stoppages. In the absence of trade union control over their members, a public demand for stability is forcing the Government and Parliament to search for a legislative solution.

More allegations surface of political corruption

BY JOHN WYLES IN ROME

AFTER A government crisis and alongside a general strike, Italians are being confronted with fresh allegations of political wrongdoing which suggest that another traditional aspect of national life is resistant to change.

As most Italians have a generally low opinion of their political class and assume that politics is no freer of self-interest than other activities, few will have been shocked by yesterday's newspaper headlines.

Nevertheless, they covered an unusually rich crop of allegation and innuendo involving the leaders of two of the smallest coalition parties and a senior Christian Democrat from the Neapolitan region.

A parliamentary committee will soon have to investigate allegations surrounding the award of building contracts for several new prisons by Mr Franco Nicolazzi, leader of the Social Democratic party, when he was Public Works Minister.

According to press reports, magistrates have passed statements and other evidence to the lower house of Parliament suggesting that the contracts, worth L780bn ($355m), were not awarded according to normal procedures. Some of the recipients are reportedly personal friends of Mr Nicolazzi, who quit his ministry with the fall of the Craxi government at the end of April. The contracts have since been blocked and Mr Nicolazzi denies any wrongdoing.

It is not clear how the allegations against Mr Nicolazzi will be handled because the traditional parliamentary mechanism of an ad hoc committee of inquiry is due to be abolished following the recent referendum. This is welcome to many politicians who have regarded the procedure as embarrassingly soft.

No such protection, however, is available to Mr Armando De Rosa, a regional counsellor in Campania who is being held for questioning by magistrates in Venice. They are inquiring into allegations of a widespread system of pay-offs by private companies in return for the award of public construction contracts.

This is widely regarded as the most common form of political corruption in Italy. A recent academic study found that the usual "fee" is 10 per cent of a contract's value. Personal gain often takes second place to party interest since the proceeds are frequently shared out among some of the parties forming the administration of a commune or region. The study suggested that arguments about the sharing of such spoils constituted one of the main reasons for political instability at the local level.

The other party leader to find himself at the centre of unwanted publicity is Mr Renato Altissimo of the Liberals. According to yesterday's edition of La Repubblica, 280 investors in Pisa have lodged a complaint with a magistrate claiming that when he was Minister for Industry, Mr Altissimo enabled a failed investment company to continue operating for five months after it had been ordered to cease operations.

Solidarity group fails in bid for legal recognition

BY CHRISTOPHER BOBINSKI IN WARSAW

A GROUP of Solidarity supporters from the Ursus tractor factory near Warsaw yesterday failed to win court permission to register alongside the official trade union there.

The tactic of going through the courts to build pressure on the authorities to recognise Solidarity's right to exist is gathering strength. About 30 such groups, some from large factories, have either had their applications rejected by local courts or are preparing to apply.

Yesterday, Mr Zbigniew Bujak, one of Solidarity's national leaders who himself worked at Ursus, said outside the crowded courtroom that were the Government to permit the existence of more than one union his movement would agree to work within the framework of the 1982 union law. That legislation limits severely the right to strike.

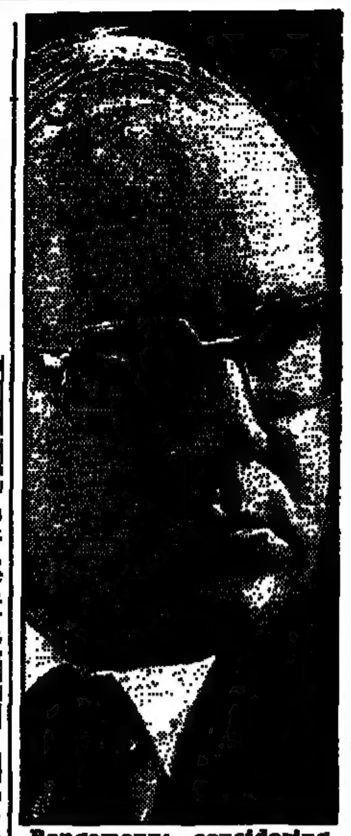
People involved in this form of activity largely represent a new generation of Solidarity activists. These are replacing the dispirited clandestine groups, especially inside factories.

The Ursus group is led by Mr Marek Jarosinski, a 27-year-old shopfloor activist who is also the chairman of the freely-elected workers' self-management council at the plant. Its action programme concentrates on work safety and social and housing issues. It is also demanding reinstatement for activists sacked since 1982 and wage increases to cover forthcoming price rises.

CENTRAL BANK MOVE SEEKS TO HEAD OFF INTERNATIONAL PRESSURE ON WEST GERMANY

Bundesbank marches into the front line

BY DAVID MARSH IN BONN



Bangemann: considering other stimulus measures

YESTERDAY'S cut in the Bundesbank's prime money market interest rate confirms the new mood of monetary pragmatism at the West German central bank since last month's international stock market collapse. By cutting its securities repurchase rate by an unexpectedly large 0.25 points to 3.25 per cent, it has acted to relieve appreciation pressure on the D-Mark against both the dollar and currencies within the European Monetary System.

The Bundesbank has demonstrated that it is giving priority to currency stability and protection of the domestic economy rather than to a single-minded attempt at reining in the money supply, growing at well over target for the second year running.

The interest rate move in Frankfurt coincided with fresh signs from Bonn that the Government is weighing up limited policy steps to boost the economy. Although Mr Martin Bangemann, the Economics Minister, again ruled out bringing forward tax cuts planned for 1990, he said the Government would be considering other stimulus action during the next few weeks.

The events of yesterday showed how the Bundesbank, at least for the moment, is taking a front-line position in attempting to head off international pressure on West Germany, both from the US and other European countries, to take action on the economy.

Its move, co-ordinated with interest rate cuts in both France and the Netherlands, was clearly meant as a signal to the US of readiness to co-operate following the weekend deficit-cutting package in Washington.

By steering interest rates down further at both the short and the longer term ends of the West German financial markets, the Bundesbank also clearly had its eye on giving some impetus to the flagging domestic economy. This follows Monday's publication of the annual report from Bonn's independent council of economic advisers forecasting a growth rate of only 1.5 per cent next year, the same as in 1987.

Yesterday's action clearly brings a step closer the possibility that the Bundesbank could cut its key discount rate in coming weeks if the West German economy continues to flag.

The discount rate has been unchanged at 3 per cent since last January. But the gap between the discount rate and the securities repurchase rate - at which the Bundesbank supplies one-month liquidity to the banking system - has declined markedly since February, when the repurchase rate was set at 3.8 per cent.

This indicates that the Bundesbank is keeping open the option of cutting discount rate, depending on events at home and abroad in the next few weeks. This would be a highly symbolic step. Over the more than a century of German central banking history starting in 1876, the discount rate has dropped under 3 per cent only once - for eight months in 1959 when it stood at 2.75 per cent.

Because the renewed rise in the D-Mark has dampened further inflationary pressures in West Germany, the Bundesbank is able to argue persuasively to its domestic monetarist critics that this year's overshooting of its money supply growth target can be tolerated. Latest figures show that the money stock, the central bank's benchmark of money supply, rose in October at an annual rate of 7.8 per cent compared with the last quarter of 1986. This compares with the target band of 3-6 per cent.

Additionally, Mr Karl Otto Poehl, the Bundesbank president, and others on the central bank's 17-member council, argue that cutting interest rates and dampening short-term currency inflows could act to contract, rather than expand, banking liquidity.

Yesterday's step was the second time this month that the Bundesbank has co-ordinated interest rate action with the Bank of France. On November 5, the Bundesbank cut its repurchase rate to 3.5 per cent from 3.8 per cent, and also cut its less important Lombard rate to 4.5 per cent, at the same time as interest rates were raised in Paris.

The West German central bank appears to be vitally concerned to head off further pressure in the EMS following the currency squalls hitting the system at the end of last month. The Bank of France has already borrowed DM10bn via the Bundesbank to finance intervention sales of D-Marks to keep the franc from falling further within its EMS fluctuation bands.

The borrowing, which virtually uses up France's new-found borrowing rights to finance so-called "intra-marginal" intervention, was completed even before the new EMS intervention agreement allowing such transactions was formally signed at the central bankers' monthly meeting in Basle earlier this month.

Norwegian bank share dealer held

By Karen Fossli in Oslo

NORWEGIAN courts yesterday issued a four-week stay of custody against Mr Philippe Hecker, a French national and former senior share-trader with Den norske Creditbank (DnC), Norway's largest bank.

Earlier this month DnC suspended Mr Hecker, accusing him of over-stepping the bank's limits for foreign share-trading transactions.

It has also emerged that Mr Hecker was formerly employed by Bailey Shatkin, a UK stockbroker, from July 1985 to June 1986. According to Bailey Shatkin, he was dismissed for unauthorised trading. The case was referred to the police, but not proceeded with.

When applying for the DnC position, Mr Hecker allegedly neglected to give an account of his prior employment with the London stockbroker.

DnC says that although it has realised losses of NKr260m($17.4m) in foreign share trading transactions associated with Mr Hecker, there is a potential portfolio loss estimated at NKr800m which it intends either to realise or to write down in value.

In April, an account was opened with DnC by Mrs Simone Levy in which no deposit or no application for credit was made. Mrs Levy has subsequently been revealed to be Mr Hecker's mother. Later, purchases of shares were debited to this account.

The counsel representing DnC in the matter, Mr Finn Myhre, says that the bank had no reason, at the time the account was opened, to believe that Mrs Levy was not a "genuine customer."

The debit balance on the Levy account, as of yesterday, totalled NKr85m. The value of the shares, purchased on the Levy account, is currently assessed to be worth some NKr70m. The difference in the estimated value of the shares and the debit balance on the Levy account is currently NKr20m, which "could change" and could be a potential loss for the bank, said Mr Myhre.

Mr Hecker's attorney, Mr Gustav Helberg Simonsen, has currently withdrawn from the case and recommended that Mr Hecker seek the expertise of specialist representation.

Italian surplus

Italy's balance of payments account swung to a surplus of L728bn in October from a L651bn deficit a year earlier, the Bank of Italy said yesterday, Reuter reports.

European Court seeks to ease its load

BY WILLIAM DAWKINS IN BRUSSELS

WIDE-RANGING plans by the European Court of Justice to set up a junior tribunal to tackle more than a third of its swelling workload are to be discussed by national legal officials in Brussels today.

The scheme aims to answer growing criticism that the Luxembourg-based court, the highest legal power in the EC, has become so overburdened that cases are running into unacceptably long delays and that it is too hard for small companies and individuals to have their grievances heard.

Under the long-awaited proposal, the so-called Court of First Instance would take responsibility for cases involving competition, anti-dumping, steel quotas and EC staff, though it might widen its jurisdiction later. But the court argues that the junior tribunal should not decide on state aid disputes, which it feels are too politically emotive to be handed over.

The new court's powers would be limited to deciding points of "complex fact" rather than points of law, which would continue to be the province of the main court. It would share the same headquarters just outside Luxembourg. Proceedings would be speeded up by avoiding the full court's practice of giving an advance indication of the final judgment via an advocate-general's preliminary opinion.

All this should enable the new tribunal to produce judgments far faster than the 15 months to three years taken by the full court. So far this year, 340 cases have been referred to Luxembourg either directly or by national courts, covering all aspects of EC law from trade barriers between member states to illicit cartels. The Court of First Instance is expected to take on around 150 cases a year, of which roughly 80 would be passed to the full court as appeals.

EC member states will welcome the idea in principle, since they have already agreed to the formation of a junior court in the reforms to the Treaty of Rome contained in the Single European Act. What is now at stake is the detail of the junior court's powers - and it is here that differences could emerge in today's talks.

French officials are understood to be concerned that the junior court should have advocates-general to back up its seven judges and to ensure that it commands as much respect the senior court, while Britain is keener to see that the court is streamlined and efficient. However, diplomats say these differences of view should be ironed out in time for EC governments to give it the go-ahead by early next year.

Brussels rebuked on Dutch ship aid ban

BY WILLIAM DAWKINS

COMPETITION authorities in the European Commission yesterday received a legal rebuke for taking 26 months to make up their minds to ban a Dutch state shipbuilding aid scheme.

The European Court of Justice overturned a decision by Brussels to ask Rijn-Schelde-Verolme (RSV), a Rotterdam-based shipyard which is now defunct, to repay Fl 294m ($87.5m) worth of state subsidies.

It held that the Commission had failed in its legal duty by not giving adequate reasons for the delay in coming to its decision three years ago, especially since Brussels had been monitoring assistance to RSV since 1977.

Although the RSV case was handled by an earlier Brussels administration, it is an embarrassment for the current generation of competition authorities, which has prided itself on acting fast against illicit state subsidies.

Commission officials said yesterday that in future they would provide "substantial explanations" for any delays in deciding on state aid.

All industrial aid disbursed by European Community governments has to be cleared by Brussels to ensure it does not give the beneficiary an artificial competitive edge.

Yesterday's ruling was the result of an appeal by RSV, which went into voluntary liquidation without repaying any state aid, in 1986.

The case was a political disaster for Mr Gys Van Aardenne, the then Dutch Economics Minister. He lost his cabinet post in the last general election, following allegations that he had failed to tell parliament of the full extent of state assistance being pumped into the ailing shipyard.

Greece stays under tight rein

BY ANDRIANA IERODIACONOU IN ATHENS

GREECE'S two-year economic stabilisation programme, followed by the Socialist Government since 1985 with mixed results, has officially ended, Mr Costas Simitis, the Economy Minister, said yesterday.

Some restraint will continue to be exercised next year, however. The Government will continue to apply relatively tight incomes and monetary policies. The general aim will be to reduce inflation, but without setting a specific target.

This year, despite a target of 10 per cent, the inflation rate is expected to reach 16 per cent, five times the European Community average.

In a decision apparently dictated by the approach of a general election in mid-1989, the authorities will make no attempt to reduce the public sector borrowing requirement next year, despite the fact that this year's target of 10 per cent of gross domestic product was overshot.

Simitis: programme over

This will allow "development projects to go ahead and make for greater social justice." The net PSBR this year is expected to reach 12.5 per cent of GDP, compared to 13.7 per cent last year.

The Government has tried to compensate, however, by limiting public sector pay concessions to full compensation for inflation for the first Dr50,000 ($360) in monthly earnings. Otherwise, the watered down system of wage indexation applied under the stabilisation programme, involving the subtraction of imported inflation, is preserved.

The private sector is "recommended" to follow public sector wage guidelines. Together with tax cuts announced last week workers can expect a minimum increase of 2 per cent in real disposable income in 1988.

The most impressive improvement in the past two years has been the reduction of the current account deficit. This is expected to fall below the 1987 target of $1.25bn, a level covered by private capital inflows. The authorities will continue a controlled slide of the drachma to preserve the competitiveness of Greek exports.

Spain expects tourism record

BY TOM BURNS IN MADRID

SPAIN'S TOURISM sector looks set for a record-breaking year as officials yesterday projected a total of 51m visitors to the country in 1987 - some 4m more than last year - on the strength of figures for the first ten months.

The substantial growth is due in great measure to Britons and West Germans. Just over a million more British holidaymakers and half a million more West Germans headed for the costas between January and October this year against the same period last year.

Figures issued by the Tourism Department showed that by the end of October 6.9m Britons had visited Spain, an increase of 18.5 per cent, and that there had been 6m West German Tourists, a 10.5 per cent increase.

The French, with 10.4m vistors between January and October, an increase of 2.5 per cent over the same period last year, continued to represent the largest single national contingent entering Spain.

Income from tourism between January and September stood at $11.7bn, an increase of 29.3 per cent in dollar terms

The tourism sector is now estimated to represent 9.6 per cent of gross domestic product. Its growth has prompted officials to talk of Spain's sunshine in terms of a natural resource and prime income earner as if it were an inexhaustible oil reserve.

Private trade flourishes in East Germany

By Leslie Colitt in Berlin

EAST GERMANY has allowed a large number of private tradesmen to set up shop since it began eliminating them in the 1950s - despite its rigid central planning policy.

The country's official news agency reported yesterday that 2,665 licences to open private businesses were granted to master craftsmen in the first half of this year. For the first time, it said, the number of new tradesmen exceeded those shutting down because of retirement or death. In the current five-year plan to 1990, 14,000 tradesmen will be allowed to go into business on their own.

Most of the private trade licences this year were granted to those with skills in shortest supply: bricklayers, roofers, tailors, dressmakers, carpenters, plumbers, mechanics, shoemakers and hairdressers.

One sign of the changing attitude towards small private enterprise is that East Germany's record-holding speed skater, Mrs Karin Enke, said recently that she planned to open her own beauty parlour when she retires from sports.

In the late 1970s the East German Government abruptly reversed its policy of forcing private owners to sell out to the state. The reason was that supplies of goods and services to the population had worsened. Nevertheless, the number of private trade establishments in East Germany has fallen from 320,000 in 1955 to 80,000 at present, employing 110,000 persons.

Prague to boost N-power spending

CZECHOSLOVAKIA is to spend around 15 per cent of its industrial investments on nuclear energy by 1990, because the country has no alternative to nuclear power, a national conference on nuclear plants concluded on its opening day yesterday, Reuter reports from Prague.

Czechoslovakia runs eight nuclear power units with a total output of 3,520 megawatts, the official Czechoslovak news agency, CTK, said.

This year, nuclear energy should account for almost 24 per cent of Czechoslovakia's electric energy production, and by the year 2000 it should account for one half, the news agency said.

Thermal power plants are to contribute only 40 per cent to total energy consumption as opposed to the 70 per cent at present, it said.

"The conference has confirmed that, as regards the long-term development of power consumption, Czechoslovakia has no other choice but nuclear power," CTK said.

Investments in nuclear power will reach 40bn crowns ($4bn at the tourist exchange rate) by the end of 1990, or about 15 per cent of the country's overall industrial investments, the news agency said.

Gorbachev meets Soares

MR Mikhail Gorbachev, the Soviet leader, held talks with Portuguese President Mario Soares yesterday aimed at consolidating ties between the two countries and accepted an invitation to visit Lisbon, Reuter reports from Moscow.

The official Soviet news agency Tass said both men pledged to strive for more regular political dialogue and to expand economic ties and cultural exchanges.

The Soviet leader described Mr Soares' visit as a "significant event capable of imparting a serious impulse to the development of Soviet-Portuguese relations," Tass said.

It said Mr Soares, who arrived in Moscow on Monday for a week-long trip, invited Mr Gorbachev to make an official visit to Portugal.

Tass said they discussed international issues including the role of Europe in world affairs and arms control ahead of next month's superpower summit in Washington.

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Judy Dempsey reports on the political ripples caused by little-reported disturbances in an elegant Transylvanian city

Romania shows the scars of a bitter clash of cultures

NOT surprisingly, recent disturbances in Brasov went unreported in the Romanian media. But one significant press item reveals the scale of the concern they sparked.

A national party conference of the Romanian Communist Party was supposed to have been convened on December 7. It has now been postponed for a week on the grounds that "the party secretaries of the counties should have more time to prepare themselves for this conference."

In other words, the party secretaries should put their own houses in order before they converge on Bucharest. The implication is that Brasov might not be an isolated incident.

Demonstrators took over the town, chanting "Down with the dictator" and demanding bread. They stormed the mayor's office and remained there until displaced by police some hours later.

Over the past two years, there have been several unconfirmed reports of sporadic outbursts of discontent. But so far there has been no evidence of any organised opposition to the regime along the lines of Poland or even Czechoslovakia.

For instance, earlier this year students in Iasi, an old university town in the north-east of Romania, protested over their living conditions. Mr Emil Bobu, a senior party official, was quickly dispatched from Bucharest to quieten things down and tighten up control of the party there. No doubt similar treatment will be meted out to the party and workers in Brasov.

But the question remains as to why this outburst happened in Brasov and why, after all this time, there is no kind of organised opposition in Romania.

Workers certainly have reason to be discontented. There are food shortages, rationing of bread, energy cutbacks and a general decline in the standard of living. When productivity levels are not met, workers' wages are correspondingly reduced.

All these grievances are represented in Brasov. But the city has certain political and cultural differences that mark it out from other Romanian towns in the south of the country.

It is an old, elegant, cultivated German industrial town in Transylvania, one of the few in Romania which has an established working class. Although thousands of ethnic Germans have left for West Germany, the influence of the German population and indeed the Hungarian minority continues to this day.

Their influence is largely cultural and political. The degree of political consciousness of the ethnic Germans, the ethnic Hungarians and the Romanians living in Transylvania is sharper than Romanians who live in the regat, the region south of Transylvania. The traditions of those Romanians whose roots lie in Transylvania are closer to Europe than to the Balkans.

In a nutshell, their cultural experiences of "civil society," in which society exercises a degree of autonomy from the state, lingers in their memory.

This is in contrast to the Balkan outlook so characteristic of Mr Ceausescu's style of leadership, which gives prominence to a strong state ruling over a weak society. The autonomy of civil institutions - the judiciary, religion, education, the legal system - is practically non-existent.

Mr Ceausescu has tried to destroy what remains of the "civil society" in Romania which, after all, conflicts with the role of the all-powerful state. At the same time, he has continued the old Balkan-style rule in Romania. Inevitably this has led to a bitter clash of cultures and traditions.

Besides the overbearing presence of the securitate, the state security police, political traditions in Romania have been virtually destroyed by 40 years of harsh, one-party rule. The ingredients of rumour and suspicion, patronage and corruption, as well as deference to state power which make up part of the Balkan political culture, have replaced independent organisations and institutions.

Not that Romania has had a long and strong history of independent institutions. The orthodox church, to which most Romanians belong, has traditionally identified with the state.

Unlike the Catholic Church in Poland, which plays a major role in protecting and promoting independent ideas as well as preserving the Polish national consciousness, the Romanian Orthodox Church so far has remained largely silent in the face of oppression.

The small Catholic and Protestant churches in Transylvania to which the ethnic Hungarians and Germans belong, and the Baptist communities, have tried to protect such traditions with little success.

The intellectuals have remained silent too. There have been isolated cases of opposition in the past, such as Paul Goma, the Romanian writer who now lives in Paris, and others who have criticised the present political system.

They may be privately admired and supported, but never publicly. Patronage by the state has not only weakened any sense of solidarity among intellectuals but has virtually ruled out any contact between intellectuals and workers.

As for the workers, many are first and second generation peasantry who often still identify with the land. They also lack the political experience to organise themselves. As one Romanian political scientist put it, "we are politically stagnating."

Hence the lack of any organised opposition in Romania. The intellectuals may be grumbling a bit more, especially in the light of what is taking place in the Soviet Union and Eastern Europe. The workers, unorganised and inexperienced, may be complaining a bit louder.

For the moment, however, these disparate murmurings and pleas have little sense of direction. In the short term, that might be counted as a personal success for Mr Ceausescu's style of rule. Few Romanians talk about the long term costs of such a success.

Soviet-educated technocrat to be China's Premier

BY ROBERT THOMSON IN PEKING

LI PENG, a Soviet-educated technocrat, has been appointed acting Chinese Prime Minister, completing an overhaul of the leadership begun at a landmark congress of the Communist Party last month.

Li's appointment was expected, as the new party boss, Zhao Ziyang, had promised that he would hand in the Premier's job to concentrate on party work. The new government leader is certain to push ahead with reform, though diplomats suggest that he does not have Zhao's reformist zeal.

It is presumed that the 59-year-old will be confirmed as Prime Minister at a meeting early next year of the National People's Congress, China's version of a parliament. While Chinese officials yesterday claimed that the appointment "embodied the principle of separating party from government," Li is the party's number two man and a member of the elite Politburo standing committee.

"A lot of things are waiting to be done and the tasks facing us are not easy. We should tackle them in a bold, prudent and earnest way," Li told members of the NPC Standing Committee, which promoted him. Interestingly, the acting Premier paid tribute to the veteran members of the committee, and invited them to "guide, support, criticise and supervise" the Government's work.

It remains to be seen how retired party elders will influence affairs of state, though Li Peng's statement suggests that they will continue to have an important role. Diplomats indicate that Li's promotion was requested by several party officials who retired at the recent congress, though they discount suggestions that his Soviet education indicates a passion for central planning.

Li: revolutionary pedigree

Li has a fine revolutionary pedigree, as he was adopted by Zhou Enlai, the late Premier, when he was 11, and has been raised in the company of the party elders. He studied hydro-power engineering in the Soviet Union from 1948, a year before the revolution, and worked in the power industry until the early 1980s.

He was made a vice-premier in 1983, and has had responsiblity for the State Education Commission and helped forumlate economic reform policy. Li has been bothered by suggestions that his time in the Soviet Union has made him pro-Soviet, and his official biography released last night carried the comment: "I am a Chinese and a member of the Chinese Communist Party. I act only on the party's line and in the interests of the country."

Unflattering assessments of Li tend to focus on his alleged "yes man" character.

Hazel Duffy, recently in Tokyo, looks at problems caused by unchecked growth on nation's cities

Japan's regional folly strikes home

JAPAN is admired by foreigners for the strength of its economic and industrial planning. But one significant area where such planning is notably absent is in the regions.

Now, the folly of the neglect of the regions is striking home. The restructuring of heavy industry – particularly shipbuilding and steel – has left land and people redundant, often in areas where there is no immediate alternative employment. Some big Japanese manufacturing companies are finding it increasingly difficult to keep faith with their policy of providing lifetime employment.

"The Government had no organised policies on employment. It did not need them because companies did the job for it. But today they cannot afford to maintain all their workers. It is increasingly difficult for them to match the demand for new skills with those who have to be laid off. We need new policies," says Mr Katsuhiro Fujiwara, a director of the Keidanren, the top industrialists' body.

Japanese employers see it as incumbent on them to find alternative work for their employees wherever possible. The Kawasaki Steel Corporation, for example, plans to make 5,300 of its steel workforce "redundant" over the next two years. Some will be loaned to car manufacturers, which need labour, and brought back when demand for steel picks up.

Kawasaki, with other steelmakers, has had government help, but this is not extensive. "But we don't want too much. It usually has strings attached," says Mr Nobutsuns Hirai, director of the new business division. In effect, Kawasaki is pursuing a regional policy of its own by re-locating workers.

But not all companies, and particularly smaller ones, can work this way. Industrialists increasingly say there is a need for co-ordinated industrial and employment policies, while the governors of the depressed regions say that there can be no solution until the Tokyo problem is dealt with.

Tokyo is now suffering the same pressures which afflicted London and Paris 30 years ago. It is buckling under the weight of wealth and economic activity which far outstrip that in other Japanese cities.

Japan, like Britain, is a highly centralised country. Political efforts to decentralise and give more autonomy to the regions have mostly been frustrated by this entrenched fact.

The main emphasis in the regions has been on improving communications, with the construction of publicly-funded motorways, the high-speed (Shinkansen) rail lines and airports.

However, there was little positive effort to distribute industry and wealth more equitably around the country. The most far-reaching plan to re-locate industry was defeated by the Opposition when it was revealed that friends of former Prime Minister Tanaka had been told of the plan beforehand giving them the opportunity to buy land speculatively.

The National Land Agency was set up in 1974 as a compromise and was charged with co-ordinating national land-use programmes. It was to link governors of the prefectures (regions) and central funding agencies.

The Agency's latest plan, the fourth, met with uproar. Far from aiming to restrict Tokyo's growth, the plan seemed to consecrate it with its concept of "dual habitation" whereby people would go on working in Tokyo, living in a small flat, but their families would live elsewhere and the breadwinner would return at weekends. Slight modification of the plan followed.

A big improvement in transport and telecommunications is also planned to bring the regions closer together – critics read this as being designed to improve access to Tokyo.

Much greater emphasis will be put on protecting areas of natural beauty, and improvement of leisure facilities in the regions to make the more attractive to people tired of the big city pressures.

The Agency has no authority to enforce its plans, but there is one ambitious policy, now taking shape, which has the potential of giving the regions new industries. The Technopolis strategy was devised in the early 1980s by the Ministry of International Trade and Industry. Based on Silicon Valley in California, the idea is to create huge science parks around towns and villages, selected for their attractive locations, in each of the prefectures away from the Pacific Coastal Belt.

It has a strong local element as well. The prefecture and local industry must contribute to the foundation fund, which lends at low interest to small companies wanting to expand and offers tax incentives.

Kumamoto area aims for prosperity

THE area around Kumamoto, on the north west of Kyushu island in the south of Japan, is bidding strongly for a larger stake in Japan's prosperity.

In income per head, the Kumamoto prefecture ranks 39 out of 47 in the country as a whole.

Over 20 per cent of its 1.8m population still makes its main living from agriculture and fishing – much higher than most of Japan – and its governor, Mr Morihiro Hosokawa, proudly proclaims it as "No 1 in persimmons, and shrimps."

He does not want to run down the importance of these industries, but wants at the same time to build on the considerable high technology base in his area, and to make this "the model prefecture."

NEC, which recently became the biggest semiconductor producer in the world, has one of its strategic plants employing over 3,000 on the outskirts of Kumamoto city. Other big employers in the area include Mitsubishi Electric and Honda.

Capitalising on the desire of people to live in pleasant surroundings, Mr Hosokawa ran a national advertising campaign appealing to Kumamoto-born scientists and engineers to come back – 216 have done so.

Pride of place in his strategy is the technopolis centre, which has attracted 40,000 visitors in its first year.

HK divided over direct elections

By Kevin Hamlyn in Hong Kong

THE FINDINGS of a government-led exercise to assess opinion about political reforms in Hong Kong show that the people's views are sharply divided on the question of introducing direct Legislative Council elections next year, Sir David Wilson, the Governor, said yesterday.

Sir David's comment is the first official interpretation of the findings of a report published early this month by a survey office set up to gather public opinion on the development of representative government.

While the 80-page report appeared to show that most Hong Kong people are against direct elections next year, government officials had previously declined to comment on its findings.

The report has been denounced by supporters of rapid democratisation, who say the Government distorted public opinion on direct elections. This was done, they contend, to avoid confrontation between Britain and China, which has steadfastly opposed direct elections.

Sir David yesterday denied that the Government had attempted to influence the report's findings

He also responded to increasing criticism that Hong Kong's Government is a lame duck, debilitated by Britain's unwillingness to stand up to Peking on the issue of political reforms.

Iran's Foreign Minister in Tokyo for Gulf talks

BY JOAN WUCHER KING

MR ALI AKBAR VELAYATI, the Iranian Foreign Minister, arrived in Tokyo yesterday for talks with Japanese officials on the Gulf war and related bilateral issues He is scheduled to meet Prime Minister Mr Noboru Takeshita and Foreign Minister Mr Sosuke Uno today.

The visit coincides with a tour of Gulf Co-operation Council states by a high-ranking Japanese government delegation to discuss Japan's proposal to finance a $10m radio monitoring system to protect shipping in the Gulf. Racal Decca Navigator, which provided and operates under contract four Decca navigational monitoring stations in the southern Gulf, have been in discussion with the Japanese Government, but no firm contract has been awarded.

The Decca navigational system now in place covers the southern Gulf waters to just north of Bahrain. The stations are in Oman, Qatar, and on two islands flanking the Strait of Hormuz. The Iranians are unhappy about plans to enlarge the system, seeing this as a concession to American pressure on Tokyo to become more involved with the US Gulf presence.

What has yet to be determined is whether the Decca system will be expanded to cover the entire Gulf or whether a new system, such as Racal's shorter-range but more accurate Hyperfix will be installed. Existing Decca stations in the northern Gulf have been out of commission for some years.

Japan has to date maintained a cautious policy towards both combatants in the Gulf war, as 55 per cent of its oil supplies come from the region. Mr Velayati's visit comes at a time when Iran is seeking to build up both regional and international support for its position on UN efforts to bring about a Gulf ceasefire.

Tehran cuts price of oil

BY IAN RODGER IN TOKYO

THE National Iranian Oil Company has bowed to pressure from two Japanese oil companies to cut its crude oil prices to them. The move is an indirect effect of the US trade embargo on Iran.

Japanese oil companies last week began complaining that NIOC was offering its oil in the spot market and to some direct customers in other countries at discount rates. They apparently threatened to make significant cuts in their purchases from Iran next year unless prices were lowered.

Yesterday it was revealed that Cosmo Oil and Showa Shell Sekiyu had received notices that NIOC's official selling price in December would be reduced by about $1 per barrel. NIOC has direct contracts with two other Japanese companies, Idemitsu and Mitsubishi Oil. Mitsubishi said it would be meeting NIOC officials later this week.

The Japanese Government has rejected calls from the US Government that it join in the embargo of Iranian oil. The Japanese believe they can contribute more to the cause of shipping safety in the Gulf by maintaining satisfactory relations with Iran.

Manila expects creditor banks to sign debt deal

BY RICHARD GOURLAY IN MANILA

THE PHILIPPINE'S top finance official said yesterday he expected all commercial creditor banks to sign a rescheduling agreement covering $13.2bn of debt by a new deadline of December 22, but hinted that the country would want to reopen talks on the deal.

Last week the 12-member creditor bank committee extended the November 15 deadline because seven banks had refused to sign the deal. Officials would not identify the banks but they are believed to be based mainly in the Middle East.

Mr Vicente Jayme, the Finance Secretary designate, told financial executives in Manila that he did not support unilateral action such as limiting interest payments as it would only attract retaliation. But he called for increased international efforts to find ways to ease the burden of heavily indebted countries that are forced to sacrifice growth in order to meet debt obligations.

Mr Jayme is in a precarious position as Congress has still not approved President Corazon Aquino's appointment of him last September as Finance Secretary. The delay apparently stems from Congressional efforts to try to get him to adopt a tougher line on how to service the country's $28.3bn of debt.

Nigeria releases US oilman

A US oil company executive and two Swiss private security guards, detained in Nigeria since July 31, have been released into the custody of their embassies, **William Dullforce reports from Geneva.**

Mr Herbert Rooks, 58, President of Panoco, a Geneva-based oil services and management company, was released on Monday. He had been held uncharged in Lagos prison since August 11. His security guards were released on Friday.

The Nigerian Government has not so far agreed that the three men can leave the country. The incident arises from a two-year-old dispute between the National Nigerian Petroleum Company and Pan Ocean Oil Corporation, Nigeria, involving a breach of contract claim.

AMERICAN NEWS

Six feared dead in US Cuban prison riot

By Lionel Barber in Washington

CUBAN prison inmates fearing deportation to their homeland refused to release any of their 75 hostages in Atlanta, Georgia, yesterday, amid reports that up to six people had died during the uprising.

In Oakdale, Louisiana, where Cuban prisoners have taken some 28 hostages, inmates threatened to kill them if police mounted a rescue assault.

Mr William Breyer, administrator at Atlanta Grady Memorial Hospital, said he had been told by Federal Bureau of Investigation officials that people had died in the prison but that they were not immediately accessible. He said he did not know whether the bodies were those of detainees or of some of their 75 hostages.

At least 12 people required medical treatment in Atlanta after the rioting by Cuban inmates. Eight Cuban prisoners were hospitalised yesterday, five of them with gunshot wounds.

At the half-burned Oakdale detention centre inmates brandished weapons in a show of force early yesterday and brought two hostages to the compound's gates to show that they were not being mistreated. The inmates threatened to kill the hostages if any assault was made.

Army and National Guard troops were on alert as the standoff with Cuban prisoners entered its third day.

Local television news reporters said the Cubans had reacted sceptically to an offer by Mr Ed Meese, the US Attorney General, to delay the deportation order if the prisoners ended their uprising. Mr Meese promised that each case would be reviewed fully and fairly.

The violent protest erupted over the weekend at Oakdale after Cuban prisoners heard that Cuba had agreed to take back some 2,500 refugees, most of them criminals and mental patients, who had illegally entered the US during the 1980 Mariel boatlift.

In return, Washington has agreed to allow some 27,000 Cubans to enter the US, many to reunite with their families. In 1980, Cuba's Communist leader Fidel Castro encouraged emigration to the US to relieve population pressure, even to the extent of opening prisons and mental hospitals.

Peter Ford finds the return of exiled left-wing leaders clouded by memories of the death squads

Politics of fear still rules in El Salvador

AS RUBEN ZAMORA, the Salvadorian left-wing leader, came home last Saturday from seven years of exile, a few hundred supporters gathered beneath the palm trees at San Salvador airport to welcome him. Some waved their paper flags in enthusiastic greeting, many others hid their faces behind them, fearful of recognition.

The scene symbolised the hopes and fears sparked here by the return of leaders of the Democratic Revolutionary Front (FDR), a political grouping allied to the FMLN guerrilla movement.

The hopes are that Central America's peace plan offers the right moment to rebuild a legal left-wing organisation. Fears are that El Salvador's notorious right-wing death squads will cut down any such efforts.

For the moment, fear is paramount, fed by President Napoleon Duarte's startling accusation on Monday that right-wing political leader Major Roberto D'Aubuisson planned the 1980 murder of Archbishop Oscar Arnulfo Romero.

Maj D'Aubuisson, widely believed to be a key figure behind the death squads that sowed terror throughout the country in the early 1980s, has long been suspected of involvement in the archbishop's assassination. But for the first time, Mr Duarte offered eye witness testimony from a man who claimed to have driven the killer on the operation and then heard his employer report to Maj D'Aubuisson that the murder had been carried out "as you ordered."

Thus, in the space of three days, two unspoken assumptions that have underpinned El Salvador's political status quo for the past seven years have been wrenched away. No longer is it certain that the left cannot exist above ground. Nor can the extreme right - which has often behaved without regard to its impact on US support for the government - be assured any longer that it can act with impunity.

PRESSURES on Major Roberto D'Aubuisson, the right-wing Salvadorian leader, mounted yesterday with the news that US police had captured a close friend of his accused of involvement in the murder of Archbishop Oscar Arnulfo Romero.

President Napoleon Duarte of El Salvador raised political tensions on Monday, accusing Maj D'Aubuisson of planning the murder with Captain Alvaro Saravia, a political grouping of the FMLN guerrilla movement. Capt Saravia is being held in Miami while his immigration status is examined.

President Duarte read reporters testimony directly implicating Maj D'Aubuisson in the archbishop's assassination in 1980. Maj D'Aubuisson, a former army officer and founder of the extreme right-wing Arena party, has been widely linked to El Salvador's notorious death squads.

He later denied the charges, dismissing them as a "political manoeuvre" by the ruling Christian Democratic Party.

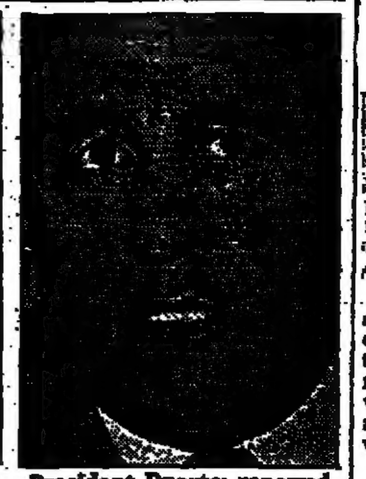
In testimony, Amado Antonio Garay said he drove the killer to the church where Mgr Romero was assassinated, and later drove his superior, Capt Saravia, to Maj D'Aubuisson's house to report that the murder had been carried out "as ordered".

President Duarte clearly timed his relevations to upstage the return home on Monday of left-wing leader Mr Guillermo Ungo, after seven years of exile. His presence, along with that of colleague Mr Ruben Zamora, who returned last Saturday has sparked fears that right-wing death squads might seek to kill them.

Fears of renewed violence were heightened with President Duarte's announcement - the first time the Salvadorian authorities have publicly linked Maj D'Aubuisson with the archbishop's death.

Any court case against him, however, is likely to be a lengthy procedure.

Maj Roberto D'Aubuisson: under mounting pressure



President Duarte: renewed fears of violence

On the face of it, that should promise new hope for a bitterly polarised society where the voices of moderation have been drowned out by gunfire for so long. But the events of the past few days also carry with them the threat of violent retaliation from the right. They revive too many memories of 1980 - the year Mgr Romero was killed and Mr Zamora and other FDR leaders fled, the year that marks the darkest days of the death squad savagery that has claimed tens of thousands of victims.

That violence closed off every avenue of political action to politicians on the left. They responded by endorsing the armed struggle of the Farabundo Marti Liberation Front (FMLN) and becoming the guerrillas' spokesmen.

But with a military stalemate between the FMLN and the US-backed Salvadorian army holding out no hope of solution, Mr Zamora and Mr Guillermo Ungo, the FDR president, have returned "to develop a political space, to turn ourselves into a political force in El Salvador," as Mr Zamora explained on his arrival.

"Our aim is to achieve peace through dialogue and the political path. All else depends on that," he added.

The prospects are not bright. "They are on very sandy ground, full of mines and booby traps," says one political analyst here. "The signs are that there is space enough for them to come back, but not to stay and work here."

Those signs are myriad. When Mr Zamora invited the local press to a cocktail party on Sunday evening, not a single Salvadorian journalist showed up. More frighteningly, Mr Reni Roldan, the Social Democratic Party leader with whom the FDR chiefs have allied, has received three death threats in the past ten days. On Monday morning, he told reporters, four armed men broke into his daughter's house asking for him.

Behind the right's resentment at the FDR leader's presence, according to Juan Vicente Maldonado, a leading businessman, "is uncertainty: are they here to participate, or to subvert?"

"The negative aspects of their return," argues Maj D'Aubuisson, now head of the right-wing Arena party, "is that they have not disassociated themselves from the FMLN."

The FDR leaders have been careful to leave their exact relationships with the guerrillas ambiguous. "There are no organic links," according to Mr Zamora, but the political alliance remains intact.

Should the FDR decide to return for good to El Salvador, after their leaders' current two week visit, "their alliance with the FMLN will be under its strongest pressure ever," says the political analyst. "The guerrillas keep talking about an insurrection, but with parliamentary elections coming up, political parties have to define their positions."

Though most observers expect the practical realities of daily political activism to naturally dilute the FDR's ties to the FMLN over time, Mr Duarte appears impatient.

Insisting that Mr Zamora and Mr Ungo should formally renounce the guerrillas now, he has suggested that any Salvadorian could file suit against the FDR leaders for any damages they suffer at the hands of the FMLN. He also expressed "great fear that the guerrillas send them here to sacrifice them," hinting that FMLN gunmen might kill their allies and seek to lay blame on right-wing death squads.

That suggestion, Zamora complained later, effectively gave the death squads carte blanche to do as they liked.

As Maj D'Aubuisson and his supporters ponder their response to Mr Duarte's accusations, senior government officials are fearful of the deadly retaliation of the death squads. And even if Mr Zamora and Mr Ungo survive their visit, the people who have come out to hear them speak know the risks they are running.

"Ruben can be here and then leave," pointed out one member of Mr Zamora's Popular Social Christian Movement, "but we have to continue living here with this fear."

Mexican opposition throws its hat into the presidential ring

BY DAVID GARDNER IN MEXICO CITY

MEXICO'S new right has thrown its hat into the ring of next year's presidential elections, by selecting Mr Manuel Clouthier, a pugnacious former head of the country's main businessmen's organisation as candidate for the National Action Party (PAN), until now the country's main opposition force.

Mr Clouthier, a prosperous landowner from the north-western state of Sinaloa, won an unexpectedly large 70 per cent majority over more moderate candidates at the PAN's annual congress.

His election mirrors the PAN's heavy tilt earlier this year towards zealots and assertive northern businessmen. The party's national executive was captured in February by so-called neo-Panistas from the rich northern border states of Sonora, Nuevo Leon, Chihuahua, Sinaloa, Durango and Coahuila.

The PAN had made its most significant electoral gains ever in these states, channelling predominantly urban middle-class protest votes against the economic failure, corruption, and arbitrariness of the Institutional Revolutionary Party (PRI) regime, which has monopolised power in Mexico for 70 years.

Since September 1983 the PAN advance has been stopped by PRI-Government ballot rigging. This electoral fraud has been witnessed and documented in several major contests for state governor - a post the PRI has never conceded in any of Mexico's 31 states - above all in Sonora in July 1985 and Chihuahua in July last year where the PRI could not avoid its manipulation of the polls becoming a national and international scandal.

The regime's choice to succeed President Miguel de la Madrid, Mr Carlos Salinas de Gortari, the young former Planning Minister, has taken this political discredit onboard by calling - last month in the capital of Sonora - for clean elections.

Mr Salinas's team has identified 100 out of 300 electoral districts where it believes the PRI may be defeated. In Federal elections in 1985 the ruling party conceded only eight of them. Almost all these districts, it is understood, are in the north.

"The barbarians from the north," as Mr Fidel Velasquez, the octogenarian PRI trade union boss, christened the new PAN executive in February, are a very different breed from the essentially Christian Democrat founders of the party. Many of them served the first governments to emerge from the 1910-17 revolution, and conceived their party more as a counterweight than an alternative to the regime.

But the raw verbal hostility to the regime of the neo-PAN has been no more successful than the party's old guard's arcane fixation with overturning the 1917 constitution (particularly its labour, land reform and secular education provisions) in building a PAN base outside the affluent north.

US agrees to reduce debt to UN by $90m

By Our UN Correspondent

THE US, responding to a personal appeal to President Ronald Reagan by Mr Javier Perez de Cuellar, the United Nations Secretary-General, has agreed to pay the UN at least $90m next month to reduce its arrears of more than $342m in assessed contributions.

Congress is expected to approve the appropriation, despite disagreements between the House and Senate about how much should be paid this year, when it considers the payment as part of its budget process which is still being completed.

It is still not clear when Congress will debate the issue or when the House and Senate will reach a compromise.

One implication of Congress agreeing to make a payment is that there will be less money for other international organisations.

However, the payment, which is in addition to $10m given earlier, will leave the US far short of meeting its total obligation of $212m for 1987.

There is also an outstanding debt of $147m for 1986 and sizeable arrears in American payments for UN peace-keeping operations in the Middle East, although these were established with Washington's political support.

Mr Perez de Cuellar, who had already imposed economies, warned the UN's 6,800 New York staff last Friday that if the US ignored his appeal he would not have sufficient funds to pay salaries next month.

The House of Representatives is so far willing to release to the UN only about half the amount favoured by the Senate.

The political reality is that legislators do not win office on the basis of their support for the UN, which does not enjoy a good image in the US and everyone is mindful that 1988 is another presidential election year.

Ironically, US debts to the UN have mounted during a period when the Soviet Union, with a new-found enthusiasm for the organisation, has decided to clear up its arrears, which were substantial.

Even the US has recently conceded the organisation's usefulness, particularly in relation to attempting to bring the Iran/Iraq war to an end.

Moscow will probably go into 1988 with a credit in its UN account.

WORLD TRADE NEWS

US to draw up $100m reprisals for EC meat ban

BY NANCY DUNNE IN WASHINGTON

THE US will impose, and then suspend, tariff increases on $100m worth of European agricultural products in a dispute over a proposed Community ban on hormone-treated meat imports.

Trade officials said yesterday that hearings to select the targets for retaliation have been scheduled to start on December 9. The reprisal, however, will be delayed until the EC puts its ban into effect at the beginning of 1989.

The products under consideration for new duties, published yesterday in the Federal Register, include beef, pork, ham, fish, cheese, leather, vegetables, fruits and fruit juices, coffee extracts, vermouth, some fermented alcoholic beverages, animal feed and gem stones.

The EC described the US decision to impose sanctions as "regrettable and unjustified".

It added that if the US sanctions were implemented the EC "would have no other choice but to adopt equivalent retaliatory measures against American exports."

A General Agreement on Tariffs and Trade panel is expected to rule this week that the US violated trade rules by imposing a special "user's fee" on imports to help reduce the US budget deficit, writes Nancy Dunne.

Canada and the European Community filed complaints about the 0.22 per cent ad valorem tax imposed on imports last year. The panel has reportedly found in their favour because the fee is not based on the actual costs of processing imports.

The current transatlantic dispute over agriculture - one of many over the past few years - began two years ago when the EC decided, on the basis of scientific findings, to ban the import of meat produced from animals treated with growth hormones.

The embargo was to go into effect on January 1 1988, but the EC heeded the pleas of US trade officials, and agreed to allow the imports to continue for an additional year.

Brussels settles for trade concessions from Japan

BY QUENTIN PEEL IN BRUSSELS

THE European Community yesterday grudgingly accepted a trade deal with Japan, offering better conditions for a range of Spanish and Portuguese exports.

Both France and the UK, as well as the European Commission, argued that the Japanese concessions fell well below the trade gains for Japanese exporters resulting from the entry of Spain and Portugal into the EC - but in the end only France voted against the deal.

The majority was persuaded to accept by the willingness of both Spain and Portugal to go along with it.

The agreement by the EC Foreign Ministers yesterday lifts the threat of a retaliatory tariff increase from six popular Japanese exports - compact discs, video recorder components, amplifiers, electric organs, DAT recorders, and microwave ovens.

The EC had threatened not to rebind the tariffs on those products, which would have resulted in an increase of up to 10 per cent.

Japan has consistently rejected the argument that it owed any concessions to the Community countries for its improved access to the Spanish and Portuguese markets.

The EC claim was made in terms of Article 24.6 of the General Agreement on Tariffs and Trade.

The Japanese offer is presented by officials as a goodwill gesture. It provides reduced tariffs on some 30 industrial items, and improved access for cut flowers and citrus fruit.

Other improvements should help exports of leather goods, and tomato products from Portugal.

The European Commission, which negotiated the deal, has made little secret of its unhappiness at being forced to accept the terms by a majority of member states.

Daewoo and JVC to invest in France

By Paul Betts in Paris

DAEWOO, the South Korean industrial conglomerate, and JVC of Japan are planning to set up manufacturing plants in the depressed French industrial steel region of Lorraine.

Daewoo envisages investing in a new microwave oven manufacturing facility in the French steel region in partnership with a minority partner. The investment is expected to involve about FFr35m ($6.1m) and create 150 jobs.

Daewoo's move is particularly significant because it will be the first industrial investment by a South Korean company in France - as well as the conglomerate's first industrial investment in Europe as a whole.

In line with the growing Japanese investment trend in France, JVC is also planning to invest in a hi-fi and compact disc plant in Lorraine. The investment will involve about FFr80m and create about 270 jobs.

The French Government has sought to encourage industrial investment in the Lorraine steel region through generous incentives.

Toshiba to sell US-made goods in Japan

TOSHIBA of Japan is to import microwave ovens and colour televisions from its US unit to help overcome problems caused by the strong yen, Reuter reports from Tokyo.

This will involve the first imports by a Japanese electronics company of completed products from a US subsidiary, the company said.

Toshiba will import initially 5,000 microwave ovens in January next year from Toshiba America for sale from March.

No decision has been reached on the number of televisions to be imported. Subsequent imports would depend on the success of domestic sales and the Tennessee-based subsidiary's capacity to meet demand.

Bonn advisers attack policy of Airbus subsidies

BY DAVID MARSH IN BONN

THE West German Government's policy of subsidising development and production of the Airbus series of European airliners has drawn stinging criticism from Bonn's council of economic advisers.

In its annual report on the economy, the council, or so-called five wise men, called the four-nation Airbus programme an "uncalculable subsidy risk" for the West German budget.

The council warned that US criticism over European Airbus subsidies should not be taken lightly. "The US sees Airbus Industrie subsidies as a serious violation of free trade principles and could be disposed to take counter-measures in other areas," the report warned. It added that the US "semiconductor war" with Japan showed that such a fear was "not groundless."

Worries over Airbus finances have been heightened by the fall of the dollar, which greatly depresses Airbus sales revenues in terms of the D-Mark. The council said doubts over the profitability of Airbus - for which the West German Government has already committed financing aid totalling DM11bn - were hindering efforts to involve West German industry more closely in production of the airliner.

The Bonn government, backed by Mr Franz Josef Strauss, the Bavarian Prime Minister, who is also chairman of the Airbus Industrie supervisory board, has been trying for more than a year to persuade large industrial companies to boost their financial stake in the West German Airbus effort.

The talks have centred on an attempt to encourage Daimler Benz, the country's largest industrial concern, to take over industrial leadership of Messerschmitt Boelkow Blohm. MBB, the Munich-based aerospace group, owns 100 per cent of Deutsche Airbus, the West German shareholder in Airbus.

Daimler Benz has been extremely reluctant to take over responsibility for MBB. Mr Martin Bangemann, the Economics Minister, who has formal responsibility for Airbus, yesterday acknowledged the risks of heavy subsidies for Airbus but could not say when talks with Daimler Benz would reach a conclusion.

Protection will keep up Canadian beer prices, reports David Owen

Brewers bottle up the market

PROBABLY the best-known brewery in Canada is not one of the 40 or so domestic plants, but the mothballed Miller brewery in Trenton, Ohio, in the US. This was the brewery, industry lobbyists repeatedly proclaimed, which was going to lay waste to domestic producers if Canada agreed to dismantle its esoteric and restrictive beer trade laws as part of a free trade deal with the US.

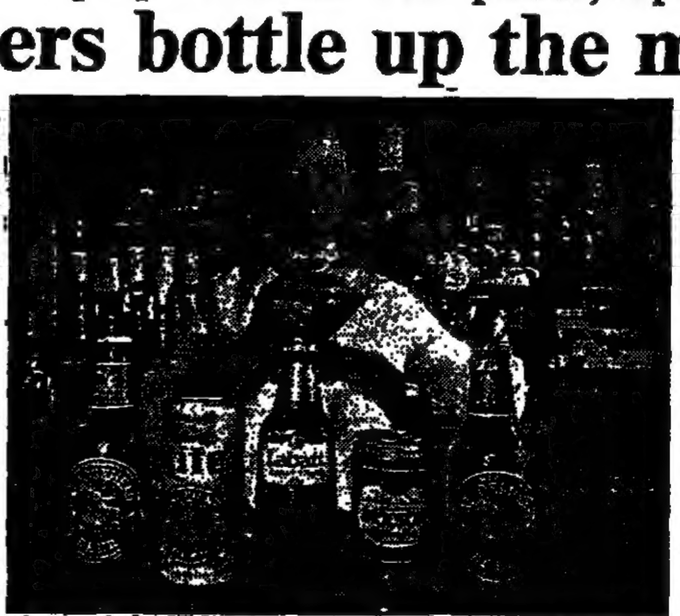
A high-profile campaign, buoyed by a one-day strike in September by 2,000 Ontario production workers, paid handsome dividends. The brewing industry was somewhat surprisingly exempted from the deal which eventually emerged.

The decision removes the threat to the web of retailing and distribution rules which form part of each province's cultural identity. But it appears to stymie any hopes that the Canadian consumer may have had of cheaper beer.

Two factors appear to have been primarily responsible for the exemption. First, officials feared that provincial premiers would be unlikely to endorse a deal which included beer. The industry, after all, last year generated some C$3.3 bn (£1.4bn) in tax revenue for federal and provincial governments and represents between 1.6 and 1.8 per cent of most provinces' gross provincial products.

Second, the brewers argued persuasively that the Canadian industry is inefficient principally because of the host of government-imposed regulations. "A whole battery of regulations makes Canadian beer uncompetitive," Mr Sandy Morrison, president of the Brewers Association of Canada, says.

While legislation on advertising and mandating the use only of expensive domestically-produced malting barley plays its part, high taxes and highly restrictive provincial rules of origin are the root causes of the brewing industry's lack of competitiveness.



According to Mr Morrison, Canadian beer is taxed on average at 52 per cent of the retail selling price. The figure south of the border is 16 per cent. Tiny Prince Edward Island is alone in not discriminating heavily in favour of beer brewed within its provincial boundaries. This has resulted in the balkanisation of the 21m hectolitre-per-year Canadian industry.

The largest plants have an annual capacity of just 3m hectolitres - a fifth the size of one Coors plant in Colorado across the border. It also means that a beer like Moosehead, available throughout the US, can only be purchased in four Canadian provinces.

Molson - one of the big three companies which produce about 93 per cent of the beer consumed in Canada and account for 84 of the 102 labels - estimates that interprovincial trade barriers raise the cost of beer to the consumer by 15 per cent.

The tariffs imposed by the two countries on beer imports give some indication of the cost discrepancies. In Canada, a US case of four six-packs attracts a punishing C$3.57 duty. This compares with a penalty of just 84 cents a case on traffic flowing in the other direction.

Not surprisingly, Canadian sales of about $200m (£112m) to the $20bn US market are mainly in the premium category. By contrast, even allowing for heavy Canadian tariffs, US imports occasionally manage to undercut domestic prices. Domestic beer sales in Alberta are said to be down 35 per cent this year in a price war triggered by cheap US imports.

Well-known US brands such as Budweiser, Coors and Miller are available in Canada and claim about 15 per cent of the overall market. But they are brewed under licence by John Labatt, Molson and Carling O'Keefe respectively, and recipes are adjusted to raise alcohol content to Canadian levels.

The free trade exemption was all the more welcome to Canadian brewers since the domestic market is stagnating as the health-conscious Yuppie generation increasingly deserts beer for fruit juices and mineral water. It is a trend which the drab and seedy brewers' retail outlets in Ontario, against which a visit to the launderette is to be positively savoured, have done nothing to discourage.

The flat market has encouraged the big three to exploit other avenues in their efforts to maintain growth. In large measure, this has meant diversification.

Labatt and Molson now have subsidiaries and divisions in speciality chemicals and entertainment. But geographic expansion of the core brewing business has also had a role to play - and attention has naturally focused on the vast, adjacent US market.

There, the premium imported beer sector continues to show impressive growth - particularly for products which catch the public's imagination. Mexico's Corona, for example, racked up volume growth of 170 per cent in 1986 to oust Molson as the second most popular foreign beer.

So far in 1987 Canadian beer sales in the US are up only 10 per cent on last year. However, a Molson spokesman believes "there is still tremendous upside potential for us in the US market."

Meanwhile, within 10 days of the agreement of the trade deal on October 3, John Labatt bought the Latrobe Brewing Company of Pennsylvania.

Mr Labatt says that the timing of the deal was "more coincidental than anything else." Even so, the move marks a continuation of Labatt's continuing and broad-ranging US expansion. "Within three or so years about half of our business will be in the US, up from 35 to 40 per cent at present," Mr Ed Bradley, executive vice-president, says.

Moscow steps up credits for India

By K.K.Sharma in New Delhi

THE SOVIET UNION yesterday extended credits totalling Rs11.5bn ($800m) to finance part of the costs of a refinery to be set up at Karnal, in Haryana state in northern India, and a thermal power station, whose site has not been specified.

India and the Soviet Union also signed a major protocol on increased trade for 1988. This envisages a 25 per cent rise in annual bilateral trade to Rs50bn. Total two-way trade this year is expected to reach Rs40bn.

The protocol was signed during the visit to India of Mr Nicholai Ryzkhov, the Soviet Prime Minister.

Last year the countries agreed to increase their trade by 250 per cent over the following five years and yesterday's protocol was the first step.

Efforts to boost Indo-Soviet trade include plans for production co-operation, joint ventures and co-operation in the services sector.

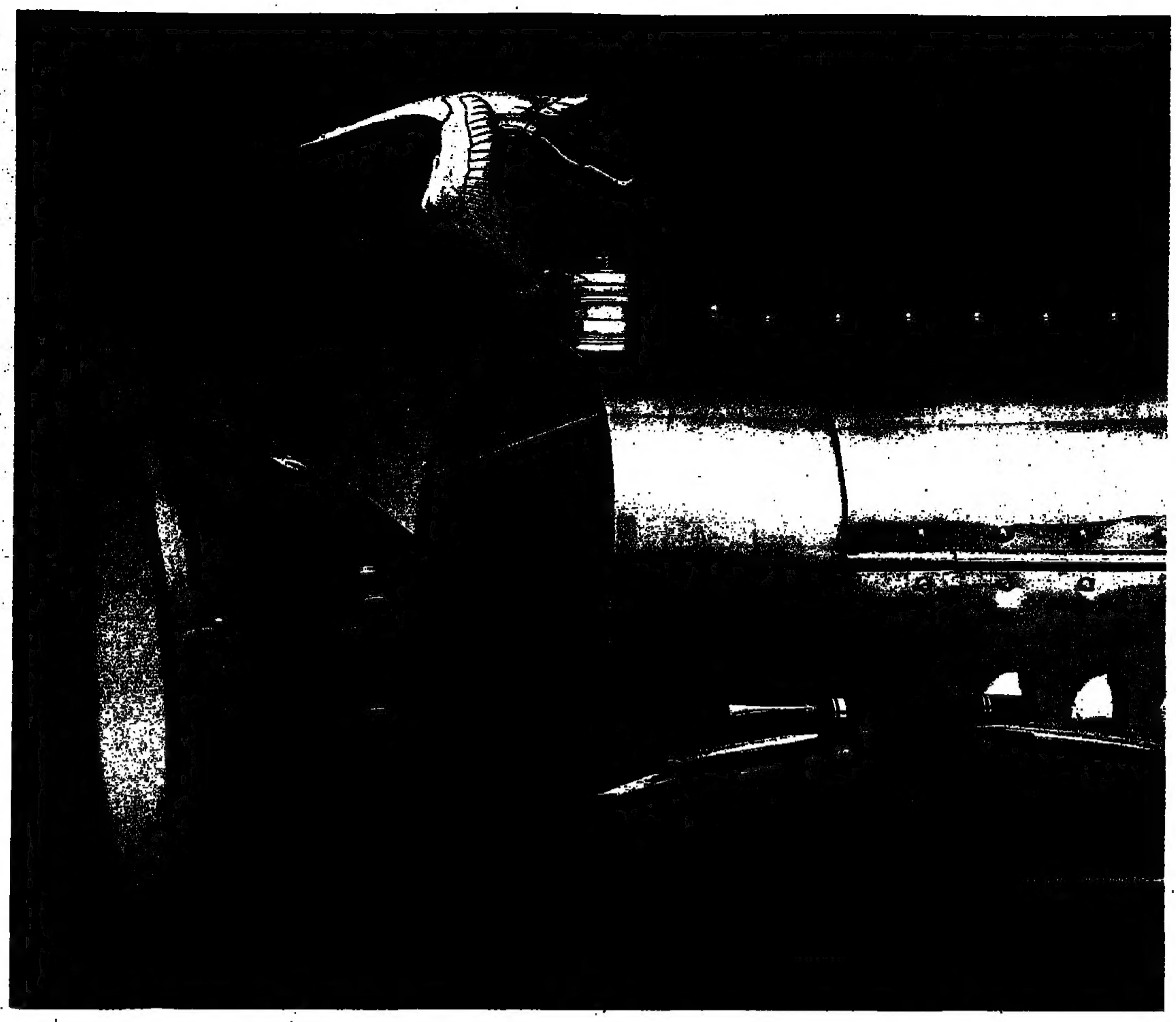
Indo-Soviet trade is conducted on the basis of an annual plan which envisages balanced trade and under which deficits are met by granting "technical credits" by the country in surplus.

In the past few years, India has given substantial "technical credits" to the Soviet Union whose main export to India is crude oil; two-way trade has been lower than had been hoped because of the fall in the price of crude.

However, in an attempt to boost trade the countries have identified a number of new Soviet exports including coal, aircraft fuel, copper and timber.

Indian companies have shown interest in about 150 industries for which joint ventures could be set up in either country, an official Indian statement said.

Larsen and Toubro, an Indian company, has already started work on two hotels in Samarkhand and Bukhara.



TECHNOLOGY

Shopping from the Chicago armchair

Deborah Hargreaves reports on 'the world's first interactive TV retailing system'

THE FIRST person to use Telaction's new electronic shopping mall bought a tube of toothpaste and then went on to browse through the toiletries. This was an encouraging sign for the system's developers who sat watching the Chicago field test. For they want their new TV retailing service to be used in much the same way that customers would treat a visit to their local shopping mall.

Stuart MacIntire, Telaction president, is eager for the company's interactive home shopping system to fit into a consumer's regular habits. "Going to a shopping mall is a social experience that will always be there...but sometimes you're pressed and need something without the hassle of going to the shops," he says.

The attraction of shopping through Telaction - a wholly-owned subsidiary of US retailer JC Penney - is that it works on existing equipment in the home. The company's electronic shopping mall is available through an ordinary cable TV channel and customers log on, browse and make purchases by pressing different numbers on a touch-tone telephone.

For the system, which MacIntire says is the first of its kind in the world, response from the 125,000 Chicago households in the field test has been positive.

While stressing the preliminary nature of his results, MacIntire claims users of the service find it very easy to operate.

Shoppers can browse through the mall or shop by product category. They can request more details on any particular item by getting a close-up of certain features and a detailed voice-over description.

The retailers, which pay a rental fee and a percentage of all sales to Telaction for their place in the mall, work with the company to provide photographs of their products and to present the image they want to convey.

The idea for the Telaction system was developed by MacIntire as part of a videotex experiment on home banking services when he was working at Minnesota-based First Bank. However, he was aware of the drawbacks of a system that required installing special terminals in peoples' homes.

After the project was purchased by JC Penney in 1983, MacIntire set about looking for the right technology to make home shopping available on ordinary TV sets. The missing link in his loop system that links a customer's touch-tone telephone to a full video channel on a TV cable service, was provided by a Canadian company called Cableshare.

Cableshare supplied Telaction with "framegrabbers", which are located on a pole in the consumer's neighbourhood and receive frames and sound from the company's proprietary video storage and display system, in turn relaying them to TV screens.

Framegrabbers are on a party-line arrangement for 15 to 40 households, but still mean individual access to the system 90 per cent of the time, stresses MacIntire.

Consumers can browse at will, but must have a personal identification number(PIN) to make a purchase. Access is gained to the system by dialling a local telephone number which appears with the Telaction logo on a local cable channel, and prospective buyers can get a PIN from one of the company's live operators by pressing number 39 on the telephone.

So far, MacIntire points out that consumers are living up to the company's expectations by spending an average of 20 to 25 minutes a day on the system. The company can watch consumers' shopping from its headquarters in a suburb of Chicago and see a pattern in shopping habits developing.

Teenagers will come home from school and log straight into the record store, MacIntire explains. Parents can ask for a separate PIN, which sets a spending limit for extravagant offspring.

Telaction, which has over 40 retailers signed up for its mall, believes the grocery shopping service will prove very popular. TV viewers can browse through a supermarket with an electronic shopping trolley to store their goods, sorting through the trolley at the end to decide what to buy and specify delivery times.

The supermarket experience is made even more real by the canned music which is played while products are on the screen.

With the field test almost over, Telaction is ready to expand into specified metropolitan areas in the US. It has patented its process in 26 countries with an eye to international expansion.

Overseas expansion would be pursued by setting up ventures with local groups in which Telaction will own a minority stake and to which it will license its technology. However, its development is dependent on an adequate cable network being in place in that particular country as well as the widespread use of touch-tone telephones.

MacIntire is pleased with the current response and is quick to distance Telaction from the hard-sell, glitzy shopping programmes pioneered by Home Shopping Network in the US. These, which offer mostly luxury goods at bargain prices, are dependent on the impulse-buy as they give consumers a short time to phone in an order for a particular product.

Telaction on the other hand, is offering a service, he stresses, and consumers are seeing the same merchandise and the same names they would see in their local shopping mall.

MacIntire says the company has taken its initial test results and is working to ensure Telaction provides a quality service. But for a system that marries a nation's two favourite pastimes; shopping and TV watching, it can't go far wrong.

WORTH WATCHING

Edited by Geoffrey Charlish

Swiss data reserve enters City service

TELEKURS, THE Zurich financial information company owned by 350 Swiss banks, is launching a screen and keyboard data service to back up decision making by financial traders in the UK.

Called Indes (Investment decision system), it is based on the Apple Macintosh II personal computer. For £15,000 a year, a user will get an Apple II with direct phone line data access to 10,000 items in a London database that covers equities, bonds, commercial paper, options, futures, commodities, foreign exchange, precious metals and market indices.

The London operation is backed by Telekurs' main database in Zurich, which covers 200,000 such financial instruments in 100 markets.

Telekurs claims the main advantage of Indes is the consolidation it offers. The data it provides to say, a pension fund manager, might otherwise call for several different screens.

In addition, with the flexibility and screen power of the Macintosh II, the user can manipulate the data to suit himself. Simultaneous displays of different kinds of data can be seen on different parts of the screen using Apple's "windowing" techniques.

For example, a trader might view the performance of certain stocks and the effects of their price changes on his portfolios in one corner of the screen, while performing analyses and "what if?" simulations using the same (or different) information in another corner of the terminal.

Hundreds of portfolios can be set up and instantly recalled, always showing the latest position as well as commissions.

Inmos powers into broker's back office

INMOS, THE specialist UK semiconductor company that makes the computer building block chip known as the transputer, now has its "flagship" device, the high performance single chip microprocessor IMS T800, in volume production.

With transputers, additional processing power is obtained by linking the devices together rather than using the so called co-processors, which Inmos claims results in more expensive products.

A product that has recently emerged using transputers was devised by White Cross Systems, a small UK company, for the London stockbroker SBCI Savory Milln. The idea is to automate the broker's back office stock accounting and bargain interrogation activities, an area which, in many broker's offices, has come in for a good deal of criticism for the settlement delays which have occurred since Big Bang.

When installed in SBCI Savory Milln's London Bridge headquarters later this year, the system will give back office staff "near-instantaneous" access to details of transactions by its front office staff over the last 12 months. A million records will be scanned in 0.2 second, using an array of transputers to give the necessary power.

Racal keeps army squads on the hop

IN THE UK, Racal's tour de force, the frequency hopping military radio, has been condensed to hand-held dimensions in a unit a soldier can easily carry about.

Called Caracal, it builds on the success of Racal Tacticom's larger Jaguar set, which the company claims was the world's first and most successful frequency hopping radio.

These systems are aimed at preventing the enemy from listening to army speech channels by constantly changing the frequency in a programmable way, known only to the intended receiving unit. Caracal also has speech encoding ("scrambling"), making life even more difficult for the enemy.

With Caracal, says Racal, such equipment can now be offered for use right down to army squad level.

Mullard's colourful role with IBM

MULLARD, THE British components subsidiary of the Dutch Philips group, is to supply IBM United Kingdom with 14-inch high resolution colour tubes for incorporation into display terminals made at the IBM Greenock plant in Scotland.

Mullard recently invested £15m at its Durham plant to make the tubes by the most up-to-date methods and the IBM contract "could be worth millions of pounds over the next few years," says IBM.

Until now, the only suitable source of such tubes in the volumes IBM needed was Japan. They differ from ordinary TV colour picture tubes in their use of special electron gun and other internal components to produce an extremely sharp and clear picture.

At the same time, Toshiba of Japan has announced a 21-inch flatter squarer tube (FST) which is aimed at the high performance workstation market. The company believes this market will reach a world level of 200,000 units by 1988, twice this year's demand.

Borg Warner lowers cost of TV 'dishes'

RECOGNISING THAT a considerable market will soon be emerging for good, cheap direct broadcast satellite (DBS) receiving "dishes", Borg Warner Chemicals of the US recently initiated a programme with PA Design and PA Technology in the UK jointly to develop such units with a view to high production volumes.

Using computer-aided design techniques, a 60cm dish design has emerged which takes full advantage of Borg Warner Cycolac engineering thermoplastics. The unit is made entirely of plastic in five precision mouldings. It has fully integrated electronics and is easily installed in about an hour.

The one-piece feed arm (which collects the satellite signals after reflection from the metallised dish surface) allows easy and accurate factory location of the parts.

The major benefits of the new design are in the repeatable accuracy of the precision moulded parts and the speed of assembly and installation.

Borg Warner Chemicals is actively seeking organisations interested in making and marketing the product.

Logica expert boards London tube trains

LOGICA has built an experimental expert system as part of an investigation for the London Underground into the use of knowledge-based computer systems for fault monitoring on tube trains. Expert systems are computers which have the ability to make human-like judgments.

The investigation by Logica is concentrating on fault diagnosis of safety brakes and performance analysis of traction control systems.

The London Underground plans to start replacing its rolling stock in 1990. It intends to introduce an advanced system so that drivers and maintenance staff can rapidly assess the condition of the trains.

Among the problem faced by Logica were the facts that dust, sand and magnetic particles in the tube tunnels made the use of floppy disks for the computer impracticable, and train vibration prevented the use of sealed disks. Instead the expert system has to be held entirely in a semiconductor memory. This meant that the whole computer program had to be written from scratch, without using expert system construction shells or artificial intelligence languages.

CONTACTS: Telekurs: London office, 256 5298. Inmos: UK, 0454 616616. Racal Tacticom: UK, 0734 875181. Mullard: London, 580 6633. Toshiba: London office, 0276 62222. Borg Warner Chemicals: Amsterdam office, 580 6911. PA Design: London, 221 2828. Logica: London, 637 9111.

UK NEWS

Building society to invest £600m in rented housing

BY ANDREW TAYLOR

NATIONWIDE Anglia, Britain's third largest building society, yesterday announced plans to invest £600m in private rented housing during the next five years.

The mortgage finance will be channelled through Quality Street, a joint venture property company which Nationwide has established with four former officials of the council housing management department in Glasgow, Scotland.

The announcement was made five days after the Government published its Housing Bill, which proposes to encourage greater private investment in rented housing by removing rental restrictions on new lettings.

Mr Tim Melville Ross, Nationwide's chief executive, said yesterday that he expected Quality Street to own and manage 40,000 homes by 1992 - accounting for around 1 per cent of annual lettings in the main urban areas of Scotland and England.

Halifax and Abbey National, the first and second largest building societies in the UK, last night congratulated Nationwide for its bold move but said they had no immediate plans to follow suit.

Nationwide said the investment had been made possible by the Building Societies Act passed last year, which permits societies to invest in areas other than traditional mortgage activities.

Quality Street proposes to cover all areas of the private rented market from luxury, city centre flats at the top of the range to joint schemes with local authorities and housing associations to provide homes for those who cannot afford to buy.

Mr Melville Ross said the ability of the new company to provide housing for the needy would depend on what level of government subsidy the company's developments might be able to attract.

He hoped to persuade the Treasury to allow capital grants to be made available to private companies, involved in social housing - "in the same way that grants are made to voluntary housing associations."

The building society has a 25 per cent stake in Quality Street. The remaining shares are held by the four former Glasgow housing officials including Mr Paul Mugnaioni, Quality Street's chief executive and formerly director of housing for the local authority.

Mr Mugnaioni, recently helped the Labour-controlled council negotiate a £140m private loan to help finance the city's large housing improvement needs.

The company would start its operations in Glasgow where the company plans to announce the first of several deals in the new year. It later plans to set up operations in Edinburgh and Dundee (also in Scotland), Liverpool in north-west England, Newcastle in the north-east and subsequently London.

Target markets, he said, would include people moving to jobs in different parts of the country, first time buyers and students.

The company would seek to acquire properties either by buying schemes being built by developers or by taking over council properties where tenants wished to exercise their right under the Housing Bill to change to a new landlord.

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NHS may sell beds to private sector

By Peter Riddell

NATIONAL HEALTH hospitals are to be allowed to make a profit from selling services, such as beds and operations, to the private sector, under the terms of legislation due to be published later today.

This extension of links between the public and private sectors comes as a number of senior ministers and influential backbenchers are pressing for an urgent reassessment of Government policy towards the health service in face of renewed opposition attacks and recent publicity over postponed operations.

Among the options being urged are a competitive market between district health authorities in the provision of services, though within the framework of a broadly free system to patients. Closer collaboration between the public and private sectors and the encouragement of private health care have also been proposed.

Mr John Moore, the Social Services Secretary, has already signalled his desire to see increased links between the two sectors with more NHS patients being treated in private hospitals, to ease waiting lists, and vice versa.

The bill will permit health authorities to make profits from selling treatment, screening and other services to the private sector.

At present under the 1946 Health Services Act, authorities are prevented from making a profit on the provision of private services or the leasing-out of equipment and property to profit-making organisations. The new bill is intended to remove this inhibition on authorities from doing what they want to attract more resources.

These initiatives are seen as increasingly urgent by some Cabinet members and interested Tory MPs (from, for example, the free-market "No Turning Back" group of younger ministers and backbenchers). They argue that the Government has become politically vulnerable over the health service in spite of increased expenditure and numbers of patients treated.

Yesterday, Mr Neil Kinnock, the Labour leader, attacked the Government over alleged cuts and changes in nurses' living standards.

Mrs Thatcher said the delay in operations reflected a shortage of trained nurses rather than a lack of financial resources.

British Rail Engineering to be privatised next year

BY KEVIN BROWN AND TOM LYNCH

BRITISH RAIL Engineering (Brel) is to be sold to the private sector next spring, Mr Paul Channon, the UK Transport Secretary, announced yesterday.

Mr Channon said the four main works at Crewe, Derby and York would be offered as a single business. A small foundry at Horwich is to be sold separately.

The most likely buyer for the main business is a management consortium led by Mr Peter Holdstock, managing director of Brel, possibly in association with an overseas partner.

Mr Holdstock said the directors were preparing a bid, but had been unable to approach potential partners in advance of the formal announcement of privatisation.

The board's preferred option would be links with both a general engineering company in the UK and a railway equipment manufacturer in Europe, he said.

This would enable Brel to diversify into general engineering in the UK, while providing access to the railway market at least one other EC country.

Brel has close links with a number of European railway equipment suppliers through an Anglo/French/Belgian consortium bidding for the contract to build trains for the Channel tunnel.

Brel's partners in this venture include Alsthom, ANF-Industrie and de Dietrich of France, and BN and ACEC of Belgium.

Analysts said there was unlikely to be a queue of UK general engineering companies seeking an alliance with Brel. Davey, the major engineering and plant contracting group, has worked with Brel in the past on a consultancy basis, however.

The Government is thought unlikely to approve a bid from a direct UK competitor of Brel such as GEC, Metro-Cammell, part of the Laird Group, or Brush Electrical Machines, a Hawker Siddeley company.

This is because the diminution of competition would be politically embarrassing, and could increase costs for British Rail.

Brel has won 70 per cent of BR orders since competitive tendering was introduced, but has recorded substantial losses on the contracts.

The company reported a trading loss of £5.3m for 1986-87 after losing £13.8m on work obtained on a competitive basis. Work supplied by BR without outside competition yielded profits of £8.6m.

Brel said privatisation would not affect its current programme of nearly 3,000 redundancies, which will reduce the workforce to around 7,500 by April compared with a peak of 31,000 five years ago.

The announcement met with hostility from Labour and trade union spokesmen.

Mr Jack Adams, a national officer of the Transport Workers' Union, said firm guarantees of job security would be demanded before the sale took place.

In the Commons, Tory MPs welcomed the announcement and urged Mr Channon to give favourable consideration to a management bid.

Current account deficit widens to £282m

BY SIMON HOLBERTON

BRITAIN'S CURRENT account deficit widened to £282m last month compared with a revised deficit of £17m for September, as exports fell and imports remained relatively bouyant.

In the 10 months to the end of October the current account deficit was £1bn, and it now seems likely that the Treasury's forecast of a £2.5bn shortfall for the year will turn out to be over-pessimistic. City analysts believe the deficit for the year will be closer to £1.75bn.

The pound and share prices improved on the release of the trade figures yesterday as the City appeared pleased that the out-turn was not worse than general expectations.

The Department of Trade and Industry said the UK had a seasonally adjusted visible trade deficit of £882m in October. The department estimated Britain's invisible earnings at £600m, a forecast which has not been changed since July.

Excluding oil and erratic items, the value of exports was 5½ per cent lower last month than in September, while imports were largely unchanged.

During the three months to the end of October, which gives a better picture of the underlying trends, exports, excluding oil and erratic items, were 4 per cent higher in volume terms than during the previous three months. Compared with the same three months a year earlier they were 8 per cent higher.

Sterling's recent gains against other major currencies, particularly the dollar, are expected to increase competitive pressures on exporters, but the Confederation of British Industry's recent survey of manufacturing industry suggests that manufacturers are still optimistic about the prospects for overseas sales.

Imports during the latest three months were 5 per cent up in volume terms, excluding erratic items and oil, while over the year they rose by 12 per cent.

A breakdown of import volumes shows that imports of capital and intermediate goods were particularly strong, which indicates that manufacturers are confident about the outlook for demand in the economy. Imports of consumer goods were still bouyant and grew by 5½ per cent in the three months to the end of October compared with the previous three months.

Gresham-CAP in naval ship study contract

BY DAVID BUCHAN, DEFENCE CORRESPONDENT

GRESHAM-CAP and Racal have displaced a consortium led by Plessey for one of two competitive studies ordered by the Ministry of Defence to define a new command system for Royal Navy Type-23 frigates.

Gresham-CAP, a joint venture between the Dowty and CAP groups, and Racal were earlier this year eliminated after two consortiums led by Ferranti and Plessey were chosen to compete for design of a replacement for the orginal CACS-4 system, which was developed by Ferranti.

However, a change in the specifications of the project definition contract, worth £2.5m over 12 months, led to re-tendering, in the process of which the Gresham-CAP consortium edged out the Plessey team.

The changes reflect the MoD's introduction of more competitive procurement practices, with the ministry deciding that its original decision to base the ship control on Ferranti's CACS-4 system had been overtaken by technology. Although several million pounds had been spent on CACS-4, the contract was put out to another tender.

The winner of the definition phase will be well placed for the large development and production contracts for the Type-23. Four of these frigates have been ordered, and one - HMS Norfolk - has already been launched without any control system, although not yet commissioned.

Joint venture to launch advanced payphone

BY DAVID THOMAS

A PIONEERING public payphone service is to be offered in the UK from next year by a group which includes Ferranti, the UK electronics company.

Ferranti holds 25 per cent in a joint venture, called Libera Developments, which has developed a new generation of cordless telephones, codenamed CT2. The other shareholders are Telephone Rentals (13 per cent) and several institutional investors.

This generation of digital, cordless telephones differs from present sets in that the system will be able to handle many more calls in a specific area.

Ferranti will sub-contract the manufacture of the telephones at first in the UK but probably later in the Far East. The telephones, to be called Zonephone, will cost between £200 and £300.

A service company, Ferranti Creditphone, will install and operate a national network of base stations in public places, including railways and banks. These will allow a person with a CT2, within 200 metres of a base station, to make a call.

Users of the service will have to pay a registration fee and a monthly subscription, both described as modest, and call charges, which are expected to be about the same as in a public payphone.

Bremner meeting put off

BY PHILIP COGGAN

MR JAMES Rowland-Jones, chairman of Bremner, the financial services group, yesterday delayed a call for the removal at an extraordinary meeting of himself and two fellow directors by postponing the meeting until June 9 next year.

Such a delay appears to be allowed by Section 368 of the Companies Act 1985 which calls merely for the board to "proceed duly to convene a meeting" if called upon to do so by shareholders controlling more than 10 per cent of the equity.

Mr Denis McGuinness, of the Glasgow stockbroker Carswell, who is challenging Mr Rowland-Jones, said last night that he would be unable to comment until he saw the circular. Bremner acquired Carswell earlier this year.

Mr Rowland-Jones said that the reason why the EGM had to be delayed was that time was needed to audit Carswell's accounts before profit-related payments could be made as part of the acquisition agreement.

Ban on TV advertising of alcohol studied

By Christopher Parkes, Consumer Industries editor

A BAN on television advertising of alcoholic drinks is to be considered by the Government as a way to control under-age drinking, along with higher taxes and tougher licensing controls.

"None of these will moulder in the archives of Whitehall," Mr Douglas Hurd, Home Secretary, said yesterday on publication of the proposals of a Home Office working group set up a year ago.

The group, led by Baroness Masham, reported that drink killed 10 times more young people than did drugs. Alcohol-abuse publicity had been overshadowed by recent campaigns against drugs and AIDS.

The report said that if existing law on under-age drinking was to protect young people from alcohol abuse "protection should not be restricted to licensed premises."

As a result, the group said, controls should be tightened to include:

- A ban on television and cinema advertising.
- Higher taxes on stronger beers and ciders.
- The extension of public-house licensing controls to clubs, hotels and restaurants.
- Government health warnings, similar to those on cigarette packets, on bottles and cans.
- An increase in fines for licensees selling alcohol to minors, to £400 from the £100 at present.
- Laws banning drinking by under-18-year-olds in all public places.

The recommendations have been passed to a ministerial group headed by Mr John Wakeham, Leader of the House of Commons.

Lady Masham is expected to speak in a House of Lords debate on alcohol abuse today. Lord Falkland, who will open the debate, said yesterday there was insufficient awareness of the scale of alcohol misuse.

He is president of Keep Alcohol Safeguards, a lobby supported by Alcohol Concern, the Churches Council on Alcohol and Drugs, and Action on Alcohol Abuse.

Delay over information technology

By David Thomas

THE GOVERNMENT may not give an overall response to the proposal made last year by an official committee for a new five-year programme for information technology research.

The proposal, from the Bide Committee, was for a £1.05bn programme, to which public funds would contribute £425m, as a follow-up to the Alvey programme which is now coming to the end of its life.

Companies and university departments in electronics and computing have been anxiously awaiting the Government's response to Bide, originally expected in the spring of this year, because it affects planning for their future research.

However, while firm decisions still have not been taken by ministers, thinking within the Department of Trade and Industry appears to be shifting towards the idea of a series of announcements, starting in the New Year, which will pick up particular aspects of the Bide proposals.

Officials say that a central part of the Bide Committee report - the recommendation that the Government should participate in the second phase of the pan-European Esprit research programme - has already been accepted.

They also point out that the level of funding available under Esprit 2 for British companies from next March is likely to be more than that foreseen by Bide, with the implication that the national British programme will probably be on a smaller scale than envisaged.

Andrew Taylor on Nationwide Anglia's £600m private housing venture

Building for the future on Quality Street

NATIONWIDE ANGLIA'S plans to invest £600m in private rented housing, announced yesterday, will be seized upon by the Government as evidence that its policies to encourage greater investment by private landlords are working.

Certainly the prospect of Britain's third-largest building society taking a stake in a private company seeking to make profits from renting homes to everybody from the rich to the unemployed would have been inconceivable a year ago.

But will the joint venture end up "financing designer homes for upwardly mobile former council tenants" as one questioner asked at yesterday's press conference? Or does it have a meaningful role to play in providing "social" housing for those at the bottom of the economic pile?

Much will depend upon how the Government intends to distribute housing subsidies under a new financial regime proposed in a Housing Bill published last Friday.

The bill proposes to deregulate private and public sector rents which will be expected to be high enough to give investors a satisfactory return on their money.

Housing subsidies will continue to be paid to voluntary housing associations which will be obliged to raise an increasing proportion of their funds from private investors.

Mr Tim Melville-Ross, Nationwide's chief executive, argues that the availability of subsidies will be just as crucial to Quality Street - the joint venture formed with four former employees of Glasgow district council's housing management department - as it will be for housing associations.

THE Halifax Building Society yesterday heralded a new round of interest rate cuts for building society investors by announcing that rates on its various accounts would fall by 1 per cent on December 1, writes Richard Waters.

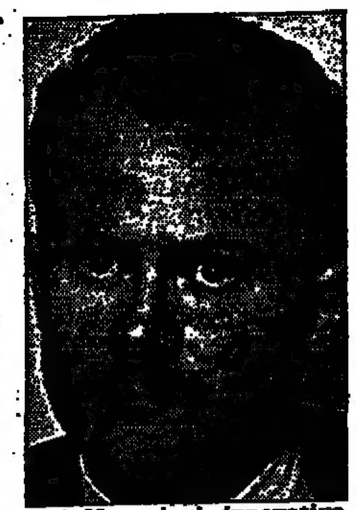
The cuts followed announcements by most societies and other lenders of reductions in mortgage rates, which generally take effect for existing borrowers at the beginning of next month.

The round of mortgage rate cuts by large societies was completed yesterday by Nationwide Anglia, the third-largest society, when it announced a rate of 10.3 per cent from December 1.

By following Halifax, Nationwide Anglia resisted the rate-cutting moves of other societies which in recent days have challenged the existence of a standard mortgage rate among building societies. Abbey National, the second-largest society, has set its mortgage rate at 10.1 per cent.

However, other societies are likely to copy Halifax's investment rates even though last week they were undecided about levels of reduction.

This is because competition for funds is currently less intense than competition for borrowers.



Paul Mugnaioni: innovative Glasgow housing director

"Without capital grants it will be impossible to provide homes at rents that those in need will be able to afford," says Mr Melville-Ross.

He wants the Treasury to extend grants available to housing associations to include private companies providing social housing. A good mix, on average, he says, would be 30 per cent public funding to 70 per cent private.

The proportion of public subsidy may have to be significantly higher for development in the most difficult urban areas. High property prices in London have already created serious difficulties for housing associations embarking on mixed financed schemes.

Plans to allow subsidies to be paid to private companies are already proposed for Scotland, where a new body, Scottish Homes, is being formed. Nationwide would like a similar system introduced in England.

A key figure in the society's plans is Mr Paul Mugnaioni, 36, chief executive of Quality Street, who developed a reputation as a highly innovative director of housing for Glasgow council.

The Labour-controlled council which recently raised a £140m loan to help pay for its large housing improvement programme, has been one of the most prominent local authorities using private finance to boost housing spending.

"The Quality Street operations will be centred initially in Glasgow, to take advantage of the experience of Mr Mugnaioni and his team," says Nationwide. The building society will have a 25 per cent stake in the joint venture with the remaining 75 per cent held by the former Glasgow council employees.

Nationwide will have to ensure that rents will be high enough to earn it a return on the £600m it proposes to lend to Quality Street during the next five years.

It says that that by 1992 it would expect the company to own and manage more than 40,000 homes for rent, generating about 5 per cent of all lettings in Glasgow, Edinburgh, Dundee, Liverpool and Newcastle upon Tyne. It anticipates the company will handle about 1 per cent of all London lettings.

The speed with which plans have been laid accounts for some of the confusion over how the proposals may work in practice.

It was only six weeks ago that Mr Mugnaioni first raised the possibility of a joint venture. Decisions over what kind of schemes will be chosen will be taken on a "case-by-case" basis as will Nationwide's choice of how to finance mortgage loans. "On some occasions we may use retail funds raised directly from society investors. At other times we may wish to raise money from the wholesale market," it says.

It will also have to resolve difficulties over capital ratio requirements which could require the society to set aside reserves of up to £120m to cover loans totalling £600m.

Activities to be covered by the joint venture range from luxury city-centre flats to "social housing" in partnership with local authorities

In some cases the company says it would buy properties direct from developers and would also seek to take over properties from local authorities.

Nationwide accepts that some questions still need to be answered, particularly over how the Government intends to respond on housing benefit and other subsidies. It says it will plough on regardless, even if it is restricted to producing schemes which are self-financing.

Government's research plans defended

BY DAVID FISHLOCK, SCIENCE EDITOR

THE GOVERNMENT'S controversial proposals for restructuring British scientific research were defended yesterday by Professor Sir David Phillips, chairman of the Advisory Board for the Research Councils.

Sir David, effectively chief scientific adviser to the Department of Education and Science, said that change along the lines proposed in the white paper last July would allow Britain to build up resources in its science base.

If the organisation and management of research were left unchanged, the Government risked a decline into an unstable state and scientists would be forced to leave the profession.

Sir David was addressing a meeting called by the Biochemical Society to discuss what Britain's academic scientists see as highly contentious proposals.

In particular, they have contested the need for the proposed three-tier classification of universities and polytechnics and for university research centres.

The Government invited written criticism of its proposals and has received 230 submissions.

The Biochemical Society is one of 16 learned societies which made a joint response attacking some of the main tenets of the Government's plans, claiming it was "over-concerned with the means by which research is managed and directed." The societies disagree strongly with the concept of university research centres.

Sir David said the scientific community had been warned by Lord Dainton in 1971 that the post-war era of exponential growth in research funding was ending, and funding had been virtually constant in real terms for about 14 years.

Professor William Mitchell, chairman of the Science and Engineering Reseach Council, said academics misunderstood the importance of better management of scientific resources. It was nonsense to claim, as they did, that management stifled initiative and discouraged the young.

He also rejected complaints that the university research centre scheme was not fully thought out.

Dr Dai Rees, secretary of the Medical Research Council, said that although the learned societies disagreed strongly with the idea of the centres he believed they were essential and could lift the level of scientific performance above that which researchers might achieve in isolation.

Professor Michael Thompson, vice-chancellor of Birmingham University, said the scientific community had made past mistakes in setting up progenitors of the centres in isolation from universities. He said universities should welome the idea that the centres were to be set up on campuses.

Lord Flowers, vice-chancellor of London University, said academics could not avoid the fact that in future the research process had to be managed,

Spycatcher publication 'might lead to more leaks'

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

PUBLICATION or serialisation in Britain of Spycatcher, the memoirs of former MI5 officer Peter Wright, would be seen as "a leaker's charter", Sir Robert Armstrong, the Cabinet Secretary, told the High Court yesterday.

Britain was potentially the most lucrative market for such a book and if Mr Wright were seen to obtain financial profit and recognition others might be encouraged to follow suit, Sir Robert said.

"In an area where one is bound by the very nature of the work not to receive recognition for it, the recognition accorded to a disloyal member could well fuel a frustration felt by a loyal member, leading him to make disclosures concerning his own work."

Sir Robert said it would be seen as a charter for the disaffected if, by means of publication abroad, publication could be secured in Britain.

He was giving evidence in support of the claim by Sir Patrick Mayhew, QC, the Attorney-General, for permanent injunctions stopping The Guardian, The Observer and The Sunday Times publishing material emanating from Mr Wright.

Reading a 25-page evidence statement, Sir Robert listed other detrimental consequences of Spycatcher's publication. Members of the security services and their families might be put in danger of harassment or even physical risk, sources of information might dry up and the confidence of friendly foreign security services might be diminished.

To the extent that those with hostile intentions towards the UK had already read Spycatcher, substantial damage had clearly already been done, but it should not be assumed that all those who had such intentions had read Spycatcher, he said.

The limited harm so far done in Britain would be greatly increased if publication went ahead without restriction or hindrance, Sir Robert said.

He said he believed that, if not restrained, Mr Wright would make further disclosures, perhaps in another book. Also, there were reported plans to film Spycatcher.

The hearing continues today.

Merrett names finance director

By Nick Bunker

MERRETT HOLDINGS, the second-biggest insurance underwriting agent at Lloyd's of London, took a further step towards a full Stock Exchange listing yesterday with the appointment of Mr Andrew Alers-Hankey as finance director.

Mr Alers-Hankey is currently finance director of Hogg Robinson & Gardner Mountain (HRGM), the Lloyd's insurance broker. After it demerged this summer from the Hogg Robinson travel, transport, financial and property services group, there was speculation that Mr Alers-Hankey would leave HRGM.

He will take up his post from January 1.

Joint venture proposes national radio channel

BY RAYMOND SNODDY

AN IRISH-BASED broadcasting venture plans to launch a commercial radio channel, covering most of the UK, two years before a national British commercial radio station could start.

A joint venture between RTE, the Irish national broadcasting organisation, and Radio Luxembourg plans to launch the channel - possibly called Radio 5 - next autumn.

The station, carrying more than 80 per cent popular music, games and news headlines, is aimed at a potential 25m people in the UK.

Mr James Culliton, chairman of RTE and chief executive of Cement-Roadstone, the Irish multinational, said yesterday that planning permission had been granted for a 1,000ft transmitting tower in Co Meath, 25 miles north-west of Dublin. The transmitter had been ordered and the station would cost about £5m to launch.

Mr Culliton said the station would cover nine-tenths of the UK, but because of international agreements on the power of the transmitter it was unlikely that the signal would easily be received in London.

RTE will hold 51 per cent of the venture and Radio Luxembourg the remainder.

Barristers vote for advertising

By Hazel Duffy

BARRISTERS have voted to allow themselves more freedom to advertise. The move will bring them in line with solicitors whose restrictions on advertising have been modified considerably over the past two years.

Chambers will be permitted to advertise through brochures giving information about barristers' qualifications and areas of practice, although the precise form of the publications still has to be considered by the Bar Council.

Individual brochures will have to be approved by the council. Solicitors will be sent brochures on request.

Three face accounting reprimand

By Richard Waters

A CHARTERED accountant has been struck off and two others reprimanded over events that led to the rescue three years ago of the Glamorgan Building Society by Bradford and Bingley.

The judgment provides a sharp warning to bank directors and auditors, who since October have been subject to the same responsibilities as those which led to the disciplinary action in the Glamorgan case.

The judgment, published yesterday, is a rare instance of non-compliance with responsibilities laid down in the 1962 Building Societies Act. Under sections 76 (1) and 87 (4) of this act, building societies must keep adequate systems of control and auditors must report to regulators on these.

Similar rules were introduced for banks in this year's Banking Act.

The accountants' Joint Disciplinary Scheme, which only becomes involved in severe cases of misconduct, ruled yesterday that the three had failed to meet these duties.

The three accountants censured are Mr David John, formerly general manager and finance director of the Glamorgan and the accountant to be barred, Mr Norman Shepherd, another director, and Mr George Pearce, a partner with auditors Deloitte Haskins & Sells.

The severity of the judgment against Mr John reflects the fact that he benefited, either personally or through companies in which he had an interest, from advances of £120,000 made by the society. He was also a partner in a firm of accountants which had audited the society.

This was not against professional ethics. However, he had subsequently failed to inform other members of the board of directors or include details in returns to the registry, said the judgment.

Trees cash falls short of demand

By Ralph Atkins

LOCAL authority requests for tree-planting aid after last month's freak storm were more than three times the sum allocated by the Government to the Countryside Commission for distribution through a special fund, Task Force Trees.

Yesterday the fund said hundreds of thousands of trees would be replaced in the next six months from its £2.75m but that the money should be seen only as the first stage of a 10-year renewal programme.

Sums allocated to county councils vary from £3,000 each for Bedfordshire and Dorset to £200,000 each for East Sussex and Kent. District councils will each receive between £3,000 and £50,000.

In London £880,000 will be shared by 26 boroughs, the Inner London Education Authority and the London Residuary Body.

The fund has been divided according to estimates of the damage suffered and the ability to plant trees quickly. Claims have been processed swiftly so that trees can be planted before Christmas or early next year.

However, the sums will pay for the replacement of only a fraction of trees damaged in the storm which swept across south-east England on October 16. It is estimated that up to 15m trees were blown down.

John Griffiths on a company's attempt to re-enter a highly competitive market under a new name

Bright hopes for truck-maker's return to main road

MR VIC WRIGHT says he believes that taking Bedford Trucks, under its new name of AWD, back into the mainstream UK truck market will not be as difficult as many critics think.

In terms of potential market acceptance, by both dealers and operators, he considers himself in a good position to judge.

Before General Motors, the previous owner, abandoned that mainstream market last year, he was Bedford's truck sales manager. He now occupies exactly the same post with ADW, the company set up to operate the Dunstable-based truck company following its acquisition on Monday by Mr David J.B. Brown, the British entrepreneur.

Mr Wright claims several reasons for his optimism.

The first is that, although the remaining 1,100 employees at Dunstable produced the last truck for the UK civilian market late last year, stocks were considerable. As a consequence, many dealers have continued to sell Bedford trucks in significant, albeit declining, numbers.

Society of Motor Manufacturers and Traders statistics show that it was only last month, as stocks became virtually exhausted, that the numbers fell away sharply. In the first 10 months of the year, Bedford had sold 1,034 trucks - a 2.7 per cent market share.

In contrast, Cheshire-based ERF, which until Monday had boasted that it was Britain's last independently-owned heavy truck-maker, sold less than half as many again - 1,483 - in the same period.

The key to the plans is that the trucks network is still largely in place

Nevertheless, at this time last year Bedford had fourth place in, and a 9 per cent share of, the UK market for trucks "proper".

An analysis by consultants DRI Europe shows that in the subsequent fight to fill the void left by Bedford, the lion's share has gone to Iveco-Ford, with 4.5 percentage points of the 7.5 per cent market share lost by Bedford in this year to the end of August. Volvo gained two percentage points and Mercedes and Leyland-DAF about half a percentage point. They are not about to yield that share lightly.

However, AWD insists that its intention to produce and sell in the second half of next year 1,000 of the relaunched TM and TL civilian trucks is realistic. It claims that will lay the foundations for further penetration with, eventually, new models - part of a £20m investment programme.

The key is that the Bedford trucks network is still largely in place, because most dealers had Bedford van and Vauxhall car franchises as well. "So all that's happened is that many of them stayed in business by intensifying their efforts on the vans and cars side," says Mr Wright.

Under AWD's agreement with GM, the TM and TL trucks will be sold once more alongside the Bedford vans range - with only the name on the trucks being different. This fulfils a sale condition that in the UK, the Bedford name would be retained for the light commercial vehicles now being produced by IBC, the joint venture company into which GM put van production under the control of Isuzu of Japan. (Military and export trucks will carry the AWD Bedford badge.)

Mr David J. Brown : British entrepreneur

AWD estimates that it will want 35 to 40 dealers for its UK network in the forseeable future and that winning their support will be no problem. "They already know us, and it's just a natural follow-on of a long-standing relationship."

The company's much larger rivals will be tracking its progress closely. Mr Brown has said that such is the rationalisation which has already taken place - at GM's cost - at Dunstable, AWD will operate profitably next year.

He forecasts that it will then produce 8,000 trucks, most of them for the military and export markets. That compares with 5,500 this year, but he does not say whether this presumes AWD will win - as it hopes, but for which it also has fierce rivals - a big Ministry of Defence contract.

No one disputes that Mr Brown's best-known company, Artix, the world's largest dump-truck maker, is a success. Whether he can translate that success into a mainstream world truck industry which is plagued by over-capacity and has seen nearly 40 truck producers disappear since the 1960s, is an issue about which many remain sceptical.

LRT to be sued for negligence over Tube fire

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

RELATIVES of three people killed in the King's Cross fire are to sue London Regional Transport for negligence, their solicitor said yesterday.

The announcement came as Dr Douglas Chambers, the St Pancras coroner, opened and adjourned inquests on 28 of the 30 victims of the fire.

There was still no official indication of the cause of the fire, and investigations by forensic experts continued at King's Cross and at police laboratories.

However, speculation that a discarded cigarette was to blame appeared to be borne out by further action by LRT against smoking, including a ban on tobacco advertising.

Mr Desmond Fennell, QC, who will chair the public inquiry into the fire, said he expected preliminary proceedings to begin early next week.

The action against LRT is being brought by Mrs Savitree Singh, whose son Rai Singh, daughter Susheila Cottle and seven-year-old grandson Dean Cottle were killed.

Mr Ian Walker, the solicitor representing Mrs Singh, said a similar action would be brought on behalf of PC Steven Hanson of the British Transport Police, who was seriously injured in the fire and is still being treated in hospital.

Mr Walker said the actions would allege negligence on the part of LRT. They were being brought purely for compensation, and not to seek revenge, he said.

He added that it was too early to say how much his clients would claim.

Mr Fennell, a Crown Court Recorder, said after a visit to King's Cross that he expected the inquiry to open on Tuesday or Wednesday for preliminary proceedings at which potential witnesses would make themselves known.

It would then be adjourned, probably until mid-January, when testimony from witnesses could be expected to take four to six weeks.

Mr Fennell declined to comment on suggestions that a discarded cigarette end started the fire.

LRT said cigarette, cigar and tobacco advertisements are to be banned on London Underground trains and stations in a new clampdown against fire risk. This follows the extension of a ban on smoking to all Underground property.

Contracts for existing advertisements will not be renewed and new advertisements will not be accepted, LRT said. The ban will cost LRT about £300,000 a year - about 2 per cent of advertising revenue.

Shops plan for Shell site

BY IAN HAMILTON FAZEY, NORTHERN CORRESPONDENT

PLANS for a £150m, 1.25m sq ft shopping and leisure complex next to Shell's petrochemical plant at Carrington, near Manchester, were announced last night by Shell and the Prudential group. Shell is contributing 312 acres of land while Prudential is providing the money.

The scheme is competing for planning approval with two others of similar size five miles away. They are Manchester Ship Canal Company in Trafford and one in Salford. Tomorrow Shell and Prudential will put their case to the public inquiry which must choose between them.

The three cases cite similar demographic data to justify the size of the market within 45 minutes driving-time. Shell argues that the proposed Westside Park complex would enhance the Carrington plant because it is west of Manchester and would be surrounded by parkland, helping Shell to develop large disused sections of the Carrington site which have not appealed to industry.

Use of computers grows in engineering

By Nick Garnett

BRITISH manufacturers spent more this year on replacing and upgrading computer systems than on installing new ones, according to a survey on computers in engineering.

The survey, by the magazine Engineering Computers, concludes that the gap in technology and efficiency has widened further between manufacturers which are now on their second generation systems and those which have never had computers.

The use of computers in factories has risen from 42 per cent of all plants in 1983 to 72 per cent this year, according to the survey which is published annually.

It estimates that the number of computers used in engineering has grown from 14,970 four years ago to more than 48,000 this year. It describes this as a "genuine success story."

Engineering Computers has derived its figures from a representative sample of 1,629 plants, 61 per cent of which returned the questionnaire.

These plants were in engineering sectors, including mechanical engineering, vehicle building, aerospace and electronics.

Taking the sample as representative of all UK engineering sectors, the survey says manufacturing plants intend to invest £660m on computer systems over the next year.

This includes £355m on hardware (up from £230m this year), £170m on peripherals, £100m on software and £35m on consultants and training.

IBM and DEC accounted for more than half of the total of computers installed in 1987, measured by value. IBM accounted for 24 per cent of unit sales, also worth 24 per cent of the market by value.

DEC had only 6 per cent of the machines installed but these were worth 28 per cent of total spent because of the size and sophistication of the machines.

The survey says that 43 per cent of all engineering plants use computers for mechanical design, 37 per cent for production engineering applications and 14 per cent for electronic design.

Charles Leadbeater on a call for stronger action against racial discrimination

Aiming to give ethnic jobs market a boost

INITIATIVES to promote greater racial equality in employment are in danger of becoming like permanent scaffolding around a building, according to Mr Linbert Spencer, chief executive of Project Fullemploy, the leading ethnic minority jobs agency.

The scaffolding, composed of codes of practice, equal opportunities policy statements, positive action plans, monitoring procedures, equal opportunities officers and awareness training, is intended to help refurbish the building.

However, too often, even in local authorities which have taken the lead in promoting non-discriminatory employment policies, the scaffolding is erected and too little work is done on the building; that is, really changing things, says Mr Spencer.

In a speech tonight to the Royal Society of Arts, Mr Spencer, one of the most articulate proponents of the need for stronger action to tackle employment discrimination, will argue that the scaffolding is only a part of the fight against the disadvantages of ethnic minorities. He will urge central government, local authorities and companies to look beyond the paraphernalia, and towards achieving tangible gains.

Mr Spencer wants to see a programme co-ordinated by central government and delivered through local agencies, to reduce ethnic minority unemployment by 100,000 within a couple of years. This would bring the ethnic minority unemployment rate down to the national average of about 11 per cent.

"There is a great deal of talk of the north-south divide. But the gulf between black and white is also a major divide. It may be the only major social policy issue that can be solved in the foreseeable future," he says.

A central element would be a programme to promote black business development. The regeneration of the inner cities, where most black people live, would play a vital role. However, this would need to be complemented by measures to promote black businesses in areas of high economic activity, he adds.

"It is no good simply focusing enterprise programmes on run-down inner-city areas. To try to create new businesses in areas which have the least potential for supporting them seems to me to be a non-starter. We have had 20 years of policies which seem to have been designed to fail."

Linbert Spencer: "Gulf between black and white"

The aims of black business development should not be to create jobs but to strengthen the black community's business reputation and wealth, to provide a solid financial foundation for others to build upon, he argues. Established organisations would continue to provide the main route for expanding black employment.

Mr Spencer believes the private sector is beginning to show greater interest in non-discriminatory policies, but employers need more help in carrying through strategies rather than simply being advised on how to draft an equal opportunity policy.

He urges training programmes aimed at coping more effectively with skill shortages, combined with policies to combat discriminatory recruitment policies.

Mr Spencer's belief that racial discrimination in employment is a big issue which can be successfully tackled is the product of wide experience. He was Manchester Council's community liaison officer, responsible for improving relations between the black community and the police in the wake of the Moss Side disturbances, and sat on the Archbishop of Canterbury's commission on inner-city areas. Then he became chief executive of Project Fullemploy, which last year provided nearly 4,000 training places for black people from 15 sites around the country.

Does Mr Spencer believe the Government will listen to his message? In response, he quotes Mrs Thatcher: "I assure you the Government will take whatever further steps are required to work for elimination of discrimination and the promotion of real equality of opportunity for all people."

He says the only trouble is that she was talking about religious discrimination in Northern Ireland rather than racial discrimination in the rest of the UK.

3i announces involvement in 750th buy-out

By Ian Hamilton Fazey, Northern Correspondent

INVESTORS in Industry (3i), the capital provider owned by the Bank of England and the clearers, yesterday announced the 750th management buy-out it has helped to finance, bringing its backing in the field to £2bn.

The buy-out involves Millers Footwear, a women's shoe company in Cockermouth, Cumbria, bought by seven executives for £2.4m.

The input of 3i - which has arranged the deal from its Newcastle upon Tyne office and first helped the company with development capital in 1961 - is £750,000, some of it equity but most of it long-term loan.

The executives have raised a substantial sum, with the rest loaned by Midland Bank.

Currently 3i is funding management buy-outs at a rate of two a week. Even the Newcastle office, in one of the most depressed parts of Britain, is supporting one a month.

SMK joins Japanese influx

BY IAN HAMILTON FAZEY, NORTHERN CORRESPONDENT

THE ELECTRONIC components maker SMK Corporation is to become the 18th Japanese company to set up in north-east England. The region now has the largest concentration of Japanese manufacturing industry in Britain.

SMK is to spend £600,000 on a 14,500 sq ft factory in Newton Aycliffe, Co Durham, with £3m being invested eventually.

The plant will open in April with 170 jobs being created initially, rising to 200. This would bring the total employed by Japanese companies in the north-east to about 3,300.

SMK employs 3,000 people in London, Japan, the US, Taiwan, Belgium, West Germany, Hong Kong, Singapore and Brazil, and has annual sales of more than £200m.

The company supplies components to manufacturers of electronic consumer goods. Keyboard switches for personal computers and remote control units for televisions will be among the products made at Newton Aycliffe.

The move was announced yesterday by SMK and the Northern Development Company (NDC), which acts as the inward investment agency for the north-east. Other Japanese companies are believed to be close to clinching deals to move into the region.

Mr Reay Atkinson, chairman of the NDC, said: "The northern region has the largest concentration of engineering investment from Japan in Europe, and looks forward to a substantial build-up in electronics."

Kiyokuni to invest £6m in Telford

BY DAVID THOMAS

KIYOKUNI, the Japanese component-maker, is to invest abroad for the first time with a £6m plant in Telford, Shropshire. The announcement is part of the expected move to Europe by Japanese component-makers.

The move follows European Commission anti-dumping actions aimed at increasing the amount of locally-made components used in Japanese goods made in Europe.

Kiyokuni will make pressed-metal parts for computer printers, photocopiers, typewriters, facsimile machines and video-cassette recorders from next April with 24-hour production in a leased factory. It will move to a purpose-built facility within four years.

Turnover is planned to rise from £2m next year to £16m in 1993, with 150 jobs created over four years. Sales are likely to be split between the UK and other countries in western Europe.

The plant will be Telford's seventh Japanese facility. Total investment committed to Telford by the Japanese is more than £100m

Soft loan of £14.2m for Panama

By Peter Montagnon, World Trade Editor

A PANAMANIAN electric utility is the first borrower in Latin America to have a UK soft loan under the Government's Aid and Trade Provision. The scheme allows aid funds to be used to sweeten conventional export credit terms.

Banque Paribas said yesterday it had signed a £14.2m credit to the Istituto de Recursos Hidraulicos y Electrificacion. The credit is to fund John Brown Engineering's installation of two 30MW gas-turbine generators in a power station near Colon.

The loan will be backed by the Export Credits Guarantee Department, topped up with aid from the Overseas Development Administration to cut its interest rate and to extend its maturity.

Use of soft loans under the provision has grown slowly in response to pressure from industry. The Government has long prefered grant aid.

In a continuing series on industrial sectors, Nick Garnett explains why an industry is in better shape than for some time

Production machine makers battle for a return to the big league

THE MACHINES in the vast display halls of the Milan exhibition centre last month underlined two developments which, in the dark days of recession, British ministers denied would ever happen.

For one thing, the extent of the European machine tool display at the exhibition reflects the new vigour of the industries involved in making production machines. Far from being the "sunset" industry as it was dubbed a few years ago, production machines have a growing worldwide market. The microchip has been harnessed to mechanical muscle, reshaping the appearance and technological capability of machines.

The 23km of show stands and the 1,600 exhibitors at Milan, all jostling for a piece of the world's $30bn machine tool market, were proof of that. So too were the 1,200 textile machinery and component makers showing off their equipment during the same week at the Porte de Versailles in Paris.

The other point these two shows highlighted was that the UK has not been wiped out as a machine builder, as the Government once appeared to think that it would be. Both shows had a liberal sprinkling of British offerings, some with an outstanding quality of engineering.

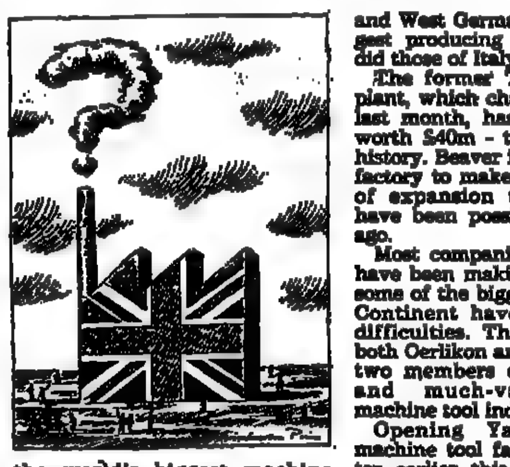
On the surface, machine building - which still involves about 200 UK makers and component suppliers with perhaps 75,000 employees - is showing those signs of growth and profit which the Government considers an indicator of rebirth in manufacturing.

Unfortunately for the UK, this looks temporary or even illusory. To Britain's competitors, the gloss is little more than skin deep, obscuring fundamental weaknesses which threaten Britain's already eroded position as a builder of equipment which many consider strategically important. It has serious shortcomings in electronic systems, lack of market strength, a paucity of both mass production companies and full-line machine producers, and sketchy research and development, to name just a few.

Perhaps it was not surprising that ministers took such an over-pessimistic view of machine building in the UK after 20 years or so of decline. In paper and packaging machinery, for example, the 1970s were a period of shrinkage as companies such as Black Clawson stopped making complete machines. Others, notably Bertrams, went to the wall.

In other sectors it was worse. A long period of sliding market share in machine tools - which by 1980 had taken the UK, the world's number three exporter two decades earlier, to a position where it held a tenuous 5 per cent of the market - culminated in a series of catastrophes. Plants closed all over the country and the biggest producer, Alfred Herbert, was broken up.

Textile machinery went the same way. Exports from this sector slumped by almost a half between 1970 and the early 1980s. At the turn of the decade the collapse of Stone Platt, once the world's biggest machine maker, and the break-up of the Bentley group drove the UK into niche manufacturing.



Only in small sectors with markets not conducive to mass production, such as APV and Baker Perkins (now APV) in food processing equipment and Molins in cigarette-making machinery, did Britain keep its place as a substantial force. In other areas, the UK was reduced to the status of a second division player.

Today there are signs of a genuine stirring in production-machine manufacture. In machine tools, for example, the growth in output achieved by the UK last year of $930m (£519m) was the highest of any of the main machine-building nations. UK orders increased substantially during 1986 but those of Japan and West Germany, the two biggest producing nations, fell, as did those of Italy and France.

The former TI machine tool plant, which changed ownership last month, has an order book worth £40m - the biggest in its history. Beaver is building a new factory to make lathes, the kind of expansion that would not have been possible a few years ago.

Most companies in this sector have been making profits, while some of the bigger names on the Continent have had financial difficulties. The latter include both Oerlikon and Georg Fischer, two members of the powerful and much-vaunted Swiss machine tool industry.

Opening Yamazaki's new machine tool factory at Worcester earlier this year, Mr Peter Walker, then Industry Secretary, described it as a sign of Britain's new manufacturing confidence. Output from that plant should substantially raise overall output figures for the UK in coming years.

In paper-making machinery, Beloit Walmsley, with the biggest paper-making machinery plant in the UK and part of the US Beloit group, has an order book of almost embarrassingly large proportions. Holders is expanding in medium-sized machines, while Black Clawson has been considerably rebuilding its workforce in the past few years.

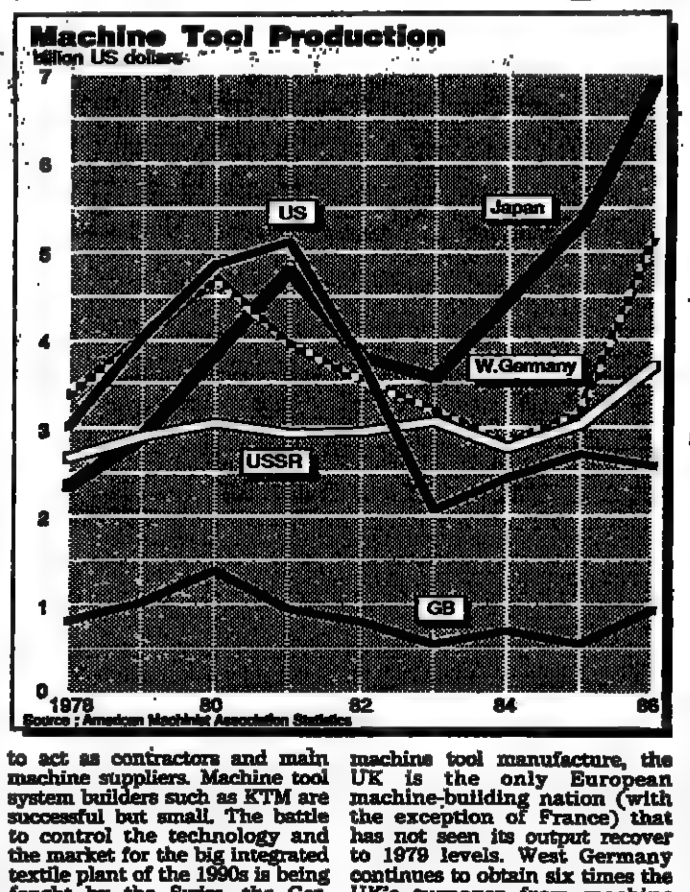
In addition, some textile machinery companies are displaying new, clever technology. Machie has consolidated its position as an important supplier of spinning machines for jute and linen. Cobble has done the same in tufting equipment. The textile machinery association even describes the UK textile machinery sector as "a great success story".

From the standpoint of Britain's competitors, however, the UK remains a second-rate power and is showing no signs of returning to the big league. "If you are asking me whether the UK is coming back as a machine tool power, I must say there is no sign yet," says Mr Lucien Rama, general secretary of the European machine tool makers committee (Cecimo).

It is the same in textile machinery. "OK, you have some good niche producers," says Mr Jacques Mermod, secretary general of Cematex, the Federation of European Textile Machinery Makers. "But we are astonished at just how many companies you have in your association's handbook; we hardly see any of these companies competing in export markets. Your industry is small and may be getting smaller."

Despite a welter of positive signs, there is a mountain of evidence to support the pessimistic view. Neither the machine tool nor textile machinery sector can demonstrate that it is reconquering lost markets or gaining market share - something the Italians can demonstrate in both these industries.

In some of the biggest areas of machine applications - big factory systems, integrated spinning and weaving mills, complete printing plants - the UK has almost no companies big enough to act as contractors and main machine suppliers. Machine tool system builders such as KTM are successful but small. The battle to control the technology and the market for the big integrated textile plant of the 1990s is being fought by the Swiss, the Germans and the Japanese.



Looking specifically at machine tool manufacture, the UK is the only European machine-building nation (with the exception of France) that has not seen its output recover to 1979 levels. West Germany continues to obtain six times the UK's turnover from machine sales with less than three times the workforce. The Swiss industry produces over a third more than the UK with half the workforce. Yet, according to a Cecimo report in 1984, the UK had the lowest wage rates of the main European countries and was the only European country with pay rates below those of Japan.

Since GEC abandoned its attempt in 1983 to become a large supplier of controls for metal-cutting equipment, the UK has also had no mainsteam control-maker in this area. West Germany has no fewer than eight electronic control companies in the field, including the giant Siemens. Italy has three and is growing.

About half of last year's improved sales performance in the machine tool sector was due to currency movements. Although the Yamazaki plant will substantially add to UK machine output figures, it employs fewer than 200 workers with all the design and technological development confined to Japan.

"All you can say is that the companies which survived in the UK are having a bit of a go," says one machine tool analyst.

In the sectors in which Britain has done well, companies remain handsomely placed. In cigarette-making machinery Molins has the technological upper hand on Hauni of Germany. In food-making equipment, APV is buying up businesses - such as Pasilac in Denmark - and is now the world's biggest in its field, crowding out Alfal Laval in Sweden and West German companies such as Holstein Kappet, Werner and Pfeiderer.

FT LAW REPORTS

VAT set-off is not by grace and favour

BETTERWARE PRODUCTS LTD v CUSTOMS & EXCISE COMMISSIONERS

Queen's Bench Division: Mr Justice Simon Brown: November 19 1987

OVER-DECLARATIONS of value added tax payable in previous periods can be set off against current liability as a matter of law, and not merely at the Commissioners' discretion.

Mr Justice Simon Brown so held when allowing an appeal by Betterware Products Ltd from a VAT tribunal's decision not to discharge an assessment made by the Commissioners, but merely to reduce it.

HIS LORDSHIP said that Betterware manufactured and sold household goods until April 11 1983, when a receiver was appointed.

It effected sales by door-to-door salesmen. Until December 1982 it accounted for value added tax on the basis that they were its agents.

In its final tax return for January 1 1983 to April 12 1983, it accounted for tax on the basis that it sold and supplied goods to the salesmen, not to the householders.

Accordingly, in that return tax was accounted for by reference to the net payments received by Betterware from the salesmen, at 80 per cent of the final sale price.

Consistently with that approach, Betterware claimed it had made substantial over-declarations of tax in previous returns. On the final return form, in Box 6 ("over-declarations") it stated £852,418. In Box 8 ("net tax payable") it stated minus £777,824.

The Commissioners did not accept the final return. They decided tax was accountable by reference to the gross payments received by the salesmen for the goods. They assessed tax payable at £105,710.

Betterware's appeal to the VAT tribunal was dismissed. It appealed to Mr Justice Webster who allowed the appeal and remitted the matter for re-determination.

The same tribunal re-evaluated the evidence in the light of the judgment and allowed Betterware's appeal, with a direction that the assessment be withdrawn.

The Commissioners applied to the tribunal to amend the direction by substituting for withdrawal a reduction to £74,593 on the basis of the 80 per cent figure.

Betterware resisted the application. It contended it was entitled to credit in respect of all past over-declarations, which far exceeded £74,593.

The tribunal allowed the application. It held it had no jurisdiction to determine whether Betterware could set off previous over-declarations.

That decision attracted the present appeal.

Paragraph 4(1) of Schedule 7 to the Value Added Tax Act 1983 provided that the Commissioners might assess "tax due" where it appeared to them that returns were incorrect. Paragraph 4(5) made explicit that "tax due" was the tax due for the prescribed accounting period.

The question was, what was the tax due from Betterware for the final accounting period?

Section 14 of the Act provided that tax should be paid "by reference to periods" and that a person was entitled at the end of each period to credit for allowable input tax, and to deduct from that any output tax due from him.

Mr Laws for the Commissioners submitted that the tax due was simply the output tax for the period less the input tax.

It was contended that a taxpayer was not entitled to credit for past overpayment, but must hope to revive it by the Commissioners' grace and favour. Failing that, it was said, he could issue a writ for money had and received, which would be met by a defence that the money was irrecoverable as money paid under a mistake of law.

Mr Park for Betterware contended that the Commissioners were expressly empowered to provide, and had provided for, correction of errors in such a way as to make it necessary when computing "tax due", to add under-declarations and subtract over-declarations.

The issue therefore was whether corrections of over and under-declarations in earlier periods operated to alter the amount of tax due for the current period.

Paragraph 2(4)(c) of Schedule 7 provided that "regulations under this paragraph may make provision...(c) for the correction of errors."

The Value Added Tax (General) Regulations 1985 provided in regulation 58(1) that the taxpayer should furnish "a return...showing the amount of tax payable by or to him." Regulation 64 provided that "If a person makes an error in accounting for tax...he shall correct it."

Paragraph 62 of the General Guide issued by the Commissioners, stated that all errors discovered after the tax return was sent in should be "recorded separately as under-declarations or over-declarations...carried to your VAT account for adjustment in your next return."

Betterware properly complied with those provisions for the correction of its error in having, up to 1983, accounted for tax on a 100 per cent basis rather than an 80 per cent basis. What was in issue was whether that compliance availed Betterware, other than by the Commissioners' grace and favour.

Mr Laws argued that the Commissioners could not take steps inconsistent with a taxpayer's primary obligation under section 14 of the Act to pay by reference to periods. He said nothing done pursuant to the regulation-making powers could provide for the setting-off of previous over-declarations against liability arising within the current period.

The boxes for under-declarations and over-declarations, he argued, were properly to be regarded as "information" rather than as showing the amount of tax payable.

Those submissions were unacceptable. It was impossible to construe the statutory return form other than as providing for the correction of errors in the full sense for which Betterware contended.

It was plain the form required previous errors to be declared so as to affect "the amount of tax payable by or to" the taxpayer, as envisaged by regulation 58(1).

Putting it in the language of paragraph 62(b) of the General Guide, any under-declarations or over-declarations were, by the very structure of the form, "carried to your VAT account for adjustment in your next tax return."

Both the form and the Guide represented the Commissioners' requirements of the manner in which past errors should be corrected as contemplated by regulation 64.

Mr Laws' submission necessarily involved the Commissioners regarding as "incorrect" a properly and accurately completed return which expressly directed how Box 8 was to be calculated, and which described it as representing the "net tax payable or repayable."

His argument involved a taxpayer, though faithfully doing what the return required, exposing himself (until the 1985 legislation) to criminal liability under section 39(8) of the Act, which provided that a person who failed to pay "tax due" should be liable on summary conviction.

The Commissioners were denying Box 6 any legal status and in so far as they had been prepared to give effect to it, they claimed to have done so without legal authority and by way of extra-statutory concession.

None of that was accepted. Betterware's argument was well-founded.

Under paragraph 4(2)(c) of Schedule 7 the Commissioners could and did introduce a scheme for the correction of errors so as to provide for off-setting any previous over-declarations of tax against what would otherwise have been the "tax due".

Betterware was entitled to set off against liability on the final account so much of its earlier over-declaration as would extinguish it, and to sue for the balance.

Its claim for the balance appeared to arise pursuant to statute rather than common law. If that were right then it would seem to avoid the defences otherwise thought to be available to the Commissioners.

The appeal succeeded. The assessment should be withdrawn.

For Betterware: Andrew Park QC and Roderick Cordara (Durrant Piesse).

For the Commissioners: John Laws (Solicitor, HM Customs and Excise).

By Rachel Davies

Barrister

BACK IN THE late 1950s when the ink was barely dry on the Treaty of Rome, the managers of Schering began to get almost starry-eyed about the outlook for an economically unified Europe. "We all dreamed of European co-operation in a single unit, as a truly common market," recalls Christian Bruhn, a director of the West German pharmaceuticals and chemicals concern.

Based in West Berlin, the group was able to look out to the west, north and south at a Europe which encompassed the capitalist half of Germany and stretched away to Britain, France, Spain and Italy.

These days, however, the thinking at Schering is a lot more sober. Bruhn, whose responsibilities include the co-ordination of European operations - "a sort of regional Godfather" - says he will be very surprised if a truly common market emerges by 1992, despite the earnest hopes of EC policymakers.

"I have come to realise that it will not happen, at least not in my lifetime." In the three decades since the treaty was signed, Schering has become more and more aware that national laws, regulations and cultures are too different for the original EC vision to be translated fully into practice.

For a company in sensitive and highly regulated product areas like drugs, pesticides and herbicides, national divisions are especially apparent.

Still, if the illusions have faded, Schering persists with its attempts to treat Europe as a whole, even though differences within the market do not exactly make this easy. "There is a difference between having a big home market, so to speak, at your doorstep, and how you actually make it work," says Bruhn.

Of Schering's worldwide sales of nearly DM 5bn last year - the falling dollar has hit sales in 1986 and 1987 - some 60 per cent was achieved in Europe. West Germany accounted for 19 per cent, the rest of the EC for 33 per cent and non-EC Europe for 8 per cent.

Its real growth push is now in the US and Japan, with the solidly established European business helping to fund this expansion.

By far the biggest of the group's activities is pharmaceuticals, accounting for just under half of total sales. Schering was the first company to introduce the contraceptive pill into Germany 25 years ago. It is also strong in contrast media for X-rays.

Next comes agrochemicals (just over a quarter), with the acquisition of FBC in England from Fisons and Boots in 1983 adding considerable strength to this division.

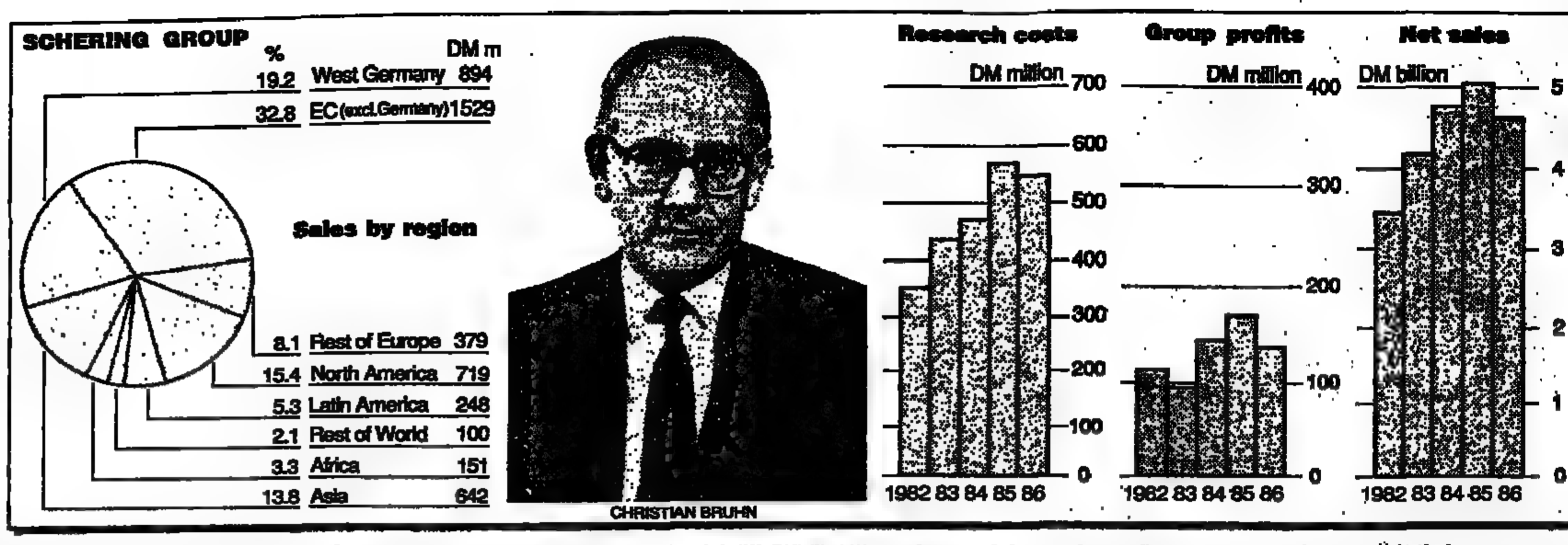
Bruhn himself helped to build up the agrochemical business in France in the 1960s, seeing the reality of the enlarged European market at close hand.

Making up the rest of Schering's business are industrial chemicals such as resins and oleochemicals (fatty acids), electroplating chemicals and equipment, and fine chemicals (amino acids and products for the food and textile industries.)

Pharmaceuticals and chemicals

Why Schering decided that a single market is something of an illusion

BY ANDREW FISHER IN FRANKFURT



'There is a difference between having a big home market... and how you actually make it work'

It is the two major divisions that give Schering its biggest headaches in Europe. In the others, notes Bruhn, "one can speak of a relatively free market." On the drug side, Schering is subject to a host of different approval, testing and pricing systems.

The products, however, rarely differ in more than name and packaging from country to country. In plant protection, testing regulations also vary widely, with the products also different according to climate and crop.

How does Schering cope with the diversity and frustrations of the European market? For one thing, it has adapted its management structure to take account of these, while maintaining control of planning and strategy at the centre. As European co-ordinator, Bruhn often has to play a mediatory role. But day-to-day local operations are left to individual companies.

Until three years ago, the main board member for sales in Berlin was also responsible for all non-German subsidiaries. Board functions were divided up in a traditional way between production, research and development, sales and marketing, and finance and personnel.

But Schering decided this was too inflexible for a company with four-fifths of its sales outside Germany. Also, more and more units had their own research and production operations, "so it was more than just sales outlets."

As a result, it moved to a divisional system based on its main product areas. Each division is now responsible for its own research and development, production and marketing. As with the regions, each division has a main board member to oversee its activities. Thus Bruhn looks after both western Europe and agrochemicals.

In a sense, the directors act as both diplomat and nursemaid, ensuring that the activities of the divisions, with their high degree of autonomy under the main board umbrella, are in line with the group's overall goals.

For instance, Schering is highly committed to environmental safety. But setting stiffer

target europe

Schering

standards costs money and eats into profits.

A few years ago, it decided that new agrochemical warehouses should have anti-fire and pollution protection that went beyond some national standards.

Explains Bruhn: "There was a conflict, noticeable but not serious, with managers in each country, who said, 'if we are subject to local rules, why go beyond them, since it will cost more?'

They are accountable to the board for their own profit levels, so they were right to bring it up, he says. In the end, the main board stuck to its guns. The more stringent German standards were applied in the construction of the new warehouses in England, The Netherlands, Denmark, and Australia, though this added some 80 per cent to the original cost, which then totalled DM25m (£16.5m).

"I relieved the local managers of their strict profit responsibility in this case," explains Bruhn. "We said, 'OK, that's something we want done and it was done.' Schering was ahead of its time, since the decision was taken well before last year's accident at Sandoz in Switzerland, which caused an outcry in Germany by adding yet more pollution to the beloved Rhine.

In this case, Schering was at least free to decide its own policy. But often, it has to respond to the requirements of governments. New pesticides or herbicides have to be tested in each country to prove that they work and that they are not harmful to health or the environment.

The rules differ in each country, especially on toxicology. "I would hope for common European legislation," says Bruhn. "Certain uniform tests should be agreed. That's the part which only creates extra unnecessary cost." He singles out two countries which are especially difficult on testing procedures: "Italy tends to be the slowest and Sweden seems to be the most meticulous."

Still, it is not only officialdom that Schering's agrochemical division has to contend with. Because climate, soil and crops vary so much, its products differ widely in each country. The local companies have a lot of freedom in picking the right chemical compounds and mixtures to suit their own areas.

"It's often useful to take an additional compound for a specific weed problem," notes Bruhn. The divisional board has to approve these, however, for health and safety reasons.

Products, however, rarely differ in more than name from country to country

Schering's French subsidiary had to meet a huge demand for herbicides for the national sunflower crop a few years ago. EC subsidies for oil-producing plants had created a booming market.

To satisfy the particular needs of the crop growers, it licensed a special compound called Racer from Stauffer in the US (now part of Britain's ICI) and developed it for the French market.

By contrast, a product it developed itself to meet special local needs was Dropp, a defoliant to make the harvesting of cotton easier in Spain and Greece.

Whatever the problems Schering may have in agrochemicals, however, it is on the pharmaceutical side that the complexities of operating throughout Europe are most acute. To have its drugs accepted, it has to repeat clinical tests in each country.

The main difficulty, says Bruhn, is not to make doctors in each country familiar with the product. "That is the legitimate part." What Schering objects to is the delays caused by the registration processes with the various national health authorities.

Because not all rules are harmonised, though, there are some hopes that the EC Commission will change this. "We really waste tests on animals and human testing simply because the different authorities can't get together."

However, Japan and the US are, if anything, even more difficult.

As well as the time factor - development and testing of drugs can take up to 15 years - companies like Schering face sharp variations in the prices they are allowed to charge to recoup costs and make a profit.

In most European countries, drug prices have moved roughly in line with inflation. France, however, follows a particularly restrictive pricing policy in Schering's view.

Since 1970, overall prices have risen fourfold there, but those of pharmaceuticals have not even doubled. Taking UK prices as a base of 100, France comes out at 57 (the lowest in Europe) and Germany at 143. The European average on this index is 83.

The differences have a marked effect on profitability and thus investment. In France, pharmaceutical companies have a net return on sales of only 1.5 per cent against 4 per cent in Britain and 10 per cent in the US. Since 1975, France has slipped from number two in the list of countries developing new drugs to fifth place behind the US, Japan, Germany, and Switzerland.

Operating in such an international environment, Schering has developed a polyglot management. This year, it appointed an Italian - Guiseppe Vita, who ran its Italian subsidiary - to the board. Vita, a German speaker, is the first foreigner to become a director.

Other appointments also reflect Schering's worldwide spread. The head of its industrial chemicals division is from the US, where the group has large interests in this sector. And two members of the agrochemicals divisional board are from the UK.

Some key Berlin-based research and marketing staff are also English. When Schering acquired FBC, says Bruhn, "no-one in the marketing division spoke any language except English." That has changed. But not even Schering can challenge the supremacy of English in one vital area. All research reports are now written in that language: "We just write it once in English and that's it."

Previous articles in this series appeared on October 14, 21, 28, November 2, 13 and 18.

Business courses

Management accounting, Brussels. February 22-25. Fee:BFr85,000 (non-members); BFr76,500 (members AMA/I). Details from Management Centre Eruope, rue Caroly 15, B 1040 Brussels, Belgium. Tel 32 2 516.19.11; telex 21.917 61.748.

The management of quality assurance, Berkshire. February 4-5. Fee: £375 + VAT. Details from the Conference Manager, David Hutchins Associates, 13-14 Hermitage Parade, High Street, Ascot, Berks SL5 7HE. Tel 0990 28712; telex 847738 DHAQIC G.

The basics of retail marketing, Berkshire. January 14. Fee: £125 + VAT for members of IM; £145 + VAT for non-members. Details from IM Marketing Training, Moor Hall, Cookham, Maidenhead, Berks SL6 9QH. Tel: 06285 24922 ext 2229.

Design for offices, '88 conference, London. January 19-20. Fee: £80.50. Details from Impact Events, Impact House, 39 Kingswood Lane, Warlingham, Surrey CR3 9AB. Tel: 01-651 4530.

Advanced selection interviewing skills, Oxfordshire. January 18-19. Fee: £395 + VAT. Details from the Course Administrator, Oxford Training, Hanborough Business Park, Main Road, Long Hanborough, Oxon OX7 2LH. Tel: 0993 883338.

Strategy and tactics in expanding markets, London. February 2-4. Fee: £199 per day. Details from Training Research International, 5 St Georges Place, Brighton BN1 4GA. Tel: 0273 570137.

Professional training communication skills, Brussels. January 19-22. Fee: BFr 85,000 (non-members); BFr76,500 (members AMA/I). Details from Management Centre Europe, rue Caroly 15, B-1040 Brussels, Belgium. Tel 32 2 516.19.11.

Acquiring in Europe, London. March 10-11. Fee: £546.25. Details from conference organiser, Business Research International, 57-61 Mortimer Street, London W1N 7TD. Tel: 01-637 4383. Telex: 8956007 IIR LON G. Fax:01-631 3214.

Improving R & D productivity through teamwork, Bradford. February 22-26. Fee: £680. Details from Liz Robinson, University of Bradford Management Centre, Post Experience Programme, Heaton Mount, Keighley Road, Bradford, West Yorkshire BD9 4JU. Tel: 0274 542299.

Practical manpower planning, Parts 1 and 2, Brighton. Part 1 January 25-29 or May 9-13; part 2 May 16-20. Fee: Each part: £915 (IMS members £825) + VAT. Details from Institute of Manpower Studies, Mantell Building, University of Sussex, Falmer, Brighton BN1 9RF. Tel: 0273 686751.

Why today's under-30s should not complain

BY MICHAEL DIXON

"DO YOU KNOW what I think is the most important thing I was taught as a child?" The fair-haired young woman spoke so vehemently that the rest of us at the large lunch table shut up and waited keenly for her to answer her own question.

"It's that life's unfair," she said. "And the sooner you learn life won't treat you fairly, the sooner you can start learning to make up for it by your own actions."

Since she seemed to be aged around 30, the Jobs column suddenly felt itself to be a member - albeit a fortunate one - of an ill starred generation. For, whatever the individual variations in fate that bless or bedevil people in any particular age group, there do seem to be general advantages in being born in one period rather than another.

Take for instance those of us who came into the world between about 12 and 25 years before the woman who so much valued the lesson that life is not fair. She should be so unlucky!

It is members of *our* generation who have borne, and are still bearing, the brunt of the "juvenation" of the upper ranks of western countries' workforces which has followed the arrival of the new technological age.

In the important matter of earning a decent living, reaching the age of 40 has become increasingly dangerous over the past dozen years. It not only makes us far more prone than our predecessors were to being ditched by our employing companies. The onset of the age of 40 now also severely reduces our chances of obtaining a new job, no matter how much our skills and experience deserve one.

A graphic illustration of the change in prospects is provided by a paperback I bought in a second-hand shop recently, which was published in 1975. Its title - 40 to 60, how we waste the middle-aged - seems somewhat ironic today.

One thing the book records with every sign of disquiet, for example, is the result of checks on advertisements of jobs for executives and senior specialists in the United Kingdom. From 1967 to 1970, we are informed, the proportion of those advertisements specifically barring applicants of 40 or over rose from 26 to 41 per cent.

A comparable check made a few months ago by the MSL management consultancy showed that the proportion ruling out anyone aged 41-plus was no less than 88.5 per cent.

The surely mindless juvenation urge that has damaged so many of us oldies has of course been to the benefit of our juniors. But any middle-ager who takes that fact as a measure of life's unfairness is underestimating its true extent by at least half.

For although the egregious age discrimination looks set to go on for a year or two longer, the younger generation who are gaining from it are unlikely to be afflicted by it when they reach the age of 40 in their turn. Indeed, the effect on them of the currently prevailing juvenation *drive will almost certainly* be positively beneficial yet again.

The reason lies in the fall in the birthrate which began in the later 1960s. The result is that, in most major western countries, youth will soon be disappearing fast. With fewer and fewer young people to recruit from, employers will have to turn somewhere else. So by the time people now in their early 30s are a decade older, the over-40s will probably have stopped being scrapped and spurned as unwanted. They will be indispensable.

But if that development is unfair to many people in the Jobs column's generation, it portends trouble for a few of same who - often deservedly - have done well out of the age discrimination of recent years. Those few are the so-called outplacement consultants, formerly called "redundancy counsellors", whom organisations with a conscience have increasingly been paying to aid the older people they are scrapping in their efforts to find a new job.

Not only do the outplacement consultancies face a drying-up of their supplies of individual customers and so of fee-income from the discarding companies. The consultancies are also likely to suffer from what appears to be a trend among employing organisations to reduce the number of people they have on their permanent staff.

In particular, instead of maintaining small armies of assorted specialists on their regular payroll, they are *evidently* keen to limit their in-house staff to managers and workers immediately concerned with the organisation's central activities. Less directly needed services are more and more being bought in, as and when required, from specialist consultancies and temporary-staff agencies outside. And it seems unlikely that those consultancies and agencies will be daft enough to build up their own permanent payrolls to a point where they are liable to have to make appreciable numbers redundant.

Hence it looks as though the days are numbered when an outplacement consultancy can expect to pay its way by taking fees from organisations for assisting their discarded employees to seek new work.

Whether outplacement concerns that have so far financed themselves in that way can cope with the change, is of course unsure. But the Jobs column, for one, hopes that the consultancies can find some way to stay in business. For over the past few years the best of them have built up a kind of service that looks bound to be direly needed in future, not least by the generation whose most senior members are now in their early 30s.

Although they have gained from the discrimination against the 40-pluses, and stand to benefit again from the impending disappearance of youth, the employment outlook for their generation is far from assured. The probability is that they will have to bear the brunt of fast and extensive changes in the work skills which are in demand at any particular time.

Their prospects of making a decent living, in short, will depend on their being able not only to learn and re-learn fast, but also to accustom themselves rapidly to moves from one field of work to another. To do that, they will need all the advice and guidance they can get from people with understanding and experience of the pressures such adjustments entail.

City batch

NOW to a clutch of job openings in the finance-sector. In each case the posts are offered by headhunters who are unable to name their clients, and so promise to abide by any applicant's request not to be identified to the employer at this stage.

The first is Noel de Berry who is looking for a skilled international banking executive to take responsibility for the North American capital markets origination business of a London-based merchant-cum-investment bank.

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Inquiries to Mr de Berry at Noel Alexander Associates, 54 Wardrobe Place, London EC4V 5AH; telephone 01-236 1851.

TWO more City-based jobs, although both necessitating a good deal of travel, and being offered by recruiter Christopher Beale.

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Inquiries to Christopher Beale Associates, 63 Grosvenor St, London W1X 9DA; tel 01-499 6901.

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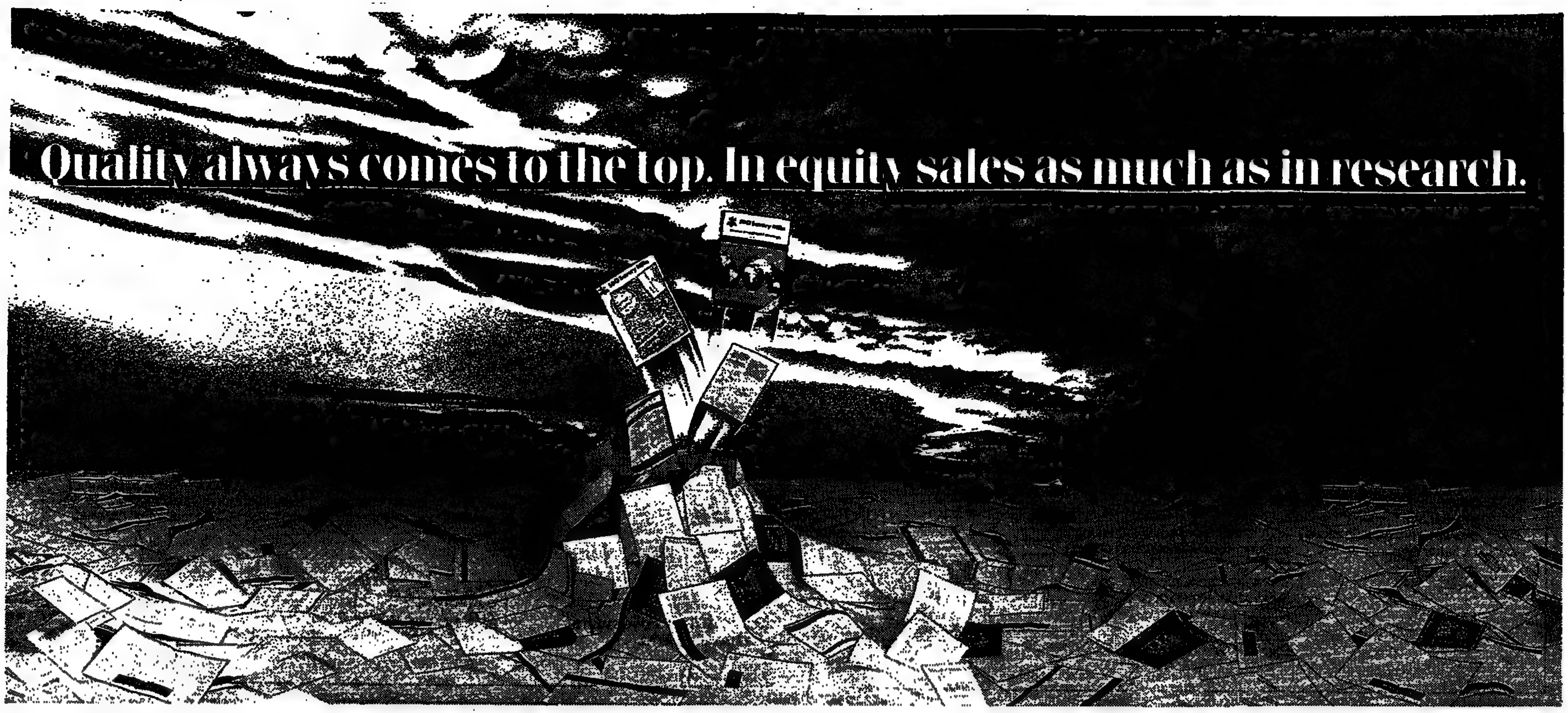

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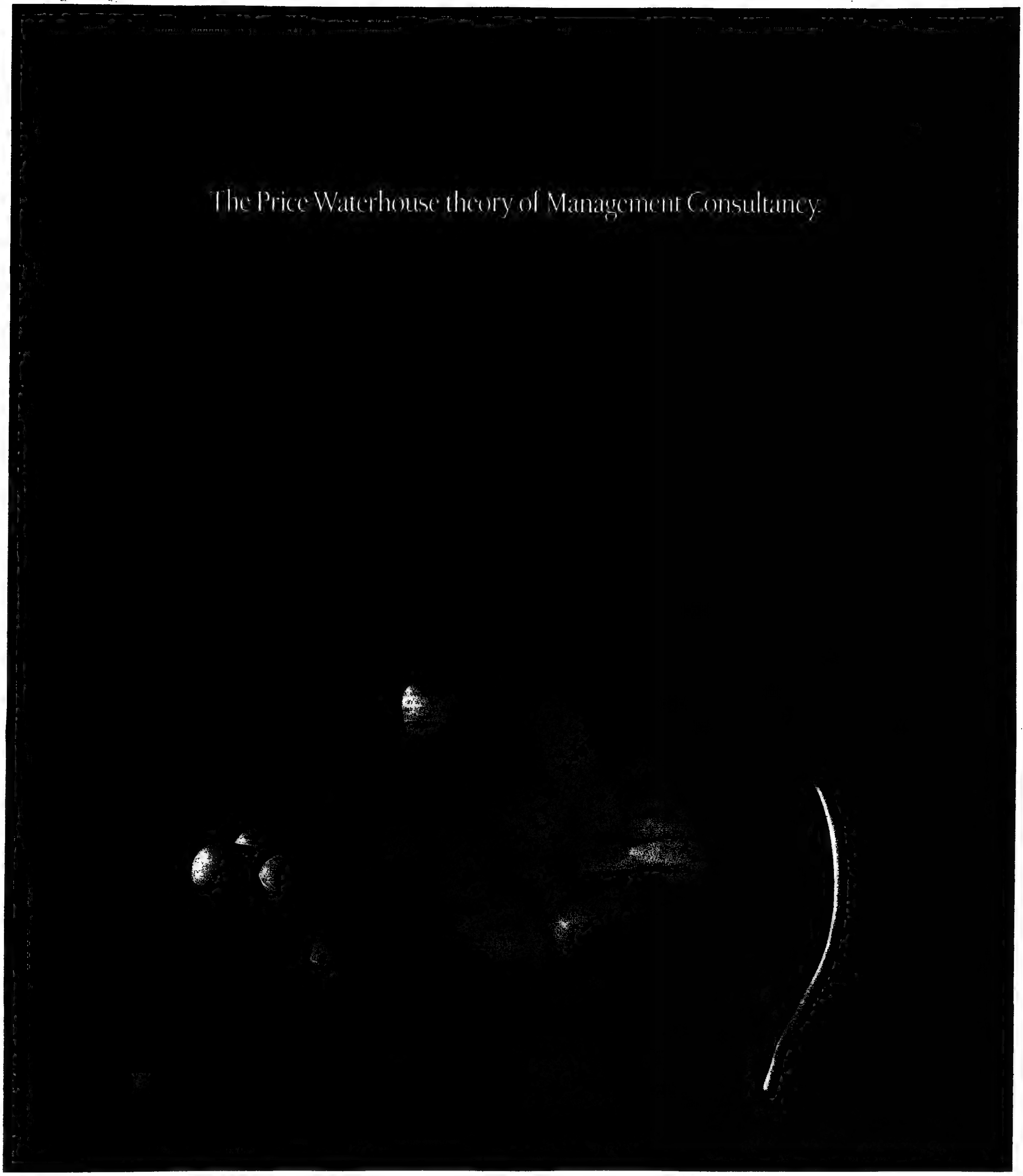

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CONTRACTS

Horsham northern bypass

WIMPEY CONSTRUCTION UK has been awarded contracts totalling more than £6m.

West Sussex County Council has awarded a civils contract for the Horsham northern bypass Stage 3, valued at £2.96m. The work involves 2km of dual carriageway 7.3 metres wide with metre-wide hard shoulders in flexible construction, and includes a roundabout, two minor junctions, a farm underpass, and 4000 metres of drainage of 100-600 mm diameter. Due for completion in March 1989, the contract includes peripheral landscaping. The client, West Sussex County Council is responsible for the engineering and surveying services.

The second contract is for an industrial development for Hedsor in Crabtree Manor Way, North Bexley, Kent. Valued at £2.25m the contract is for a single-storey factory unit with a two-storey office unit within the main envelope. The building will be of precast reinforced concrete and structural steel on piled reinforced concrete foundations with colour-coated steel cladding. Due for completion in July 1988 the factory has a floor area of about 5800 sq metres and the office 290 sq metres.

Work is underway to build a warehouse in Cannon Lane, Tonbridge, Kent, for Peel Investments <UK>. The £940,000 contract is for a single-storey warehouse with an associated two-storey office building. The steel-frame building with reinforced concrete ground beams on piled foundations with a power-floated slab and a precast concrete first floor also includes traditional brick/block walls with insulated metal cladding at high level and to the roof. Due for completion next February, this is the second contract awarded to Wimpey by Peel Investments in twelve months.

Mineshaft equipment

QUALTER HALL & CO, a member of the Matthew Hall Group, has been awarded a contract worth over £10m, to equip the two new mine shafts at British Coal's Asfordby Mine in the Nottinghamshire area. The work will involve the manufacture and installation of a cage and counterweight system for the downcast system and a skip system for mineral winding in the upcast shaft.

★

Liverpoool City Council has placed a contract valued at £750,000 for 30 Iveco Ford Daily Welfare buses.

The vehicles, launched at the Bus & Coach Symposium, are powered by a naturally aspirated 2.4 litre Iveco diesel. It produces 72hp at 4,200 rev/min and 108 lb ft. torque at 2,400 rev/min. Plated at 4,200 kg, the Daily has been designed with a special soft rate suspension.

Liverpool City Council placed the contract with **STORMONT** in Merseyside, which has chosen **ROBERT WRIGHT & SON (COACHWORKS)** of Ballymena to provide the Welfare bodies.

The Iveco Ford buses will be used by the Social Services Department to transport the elderly and disabled in the Liverpool area.

Fairclough to build Clacton retail scheme

FAIRCLOUGH BUILDING has won a £2.5m contract to build a retail development in Clacton-on-Sea, Essex, for Waterglade International Holdings.

The ten-month project entails construction of a 115,000 sq ft single-storey building, comprising four separate units, for occupation by leading retailers. Safeways, Texas Homecare and Bejam have taken large units and only 24,000 sq ft remains available.

It is located at the site of the old football ground, council depot and gas works in Old Road. Some buildings have been demolished to make way for the new development. Built upon concrete pad foundations, it will comprise a steel frame with part brick, part steel cladding, blockwork inner lining, and a steel-clad roof. The contract also includes external works, loading bays and a surface car park for 600 vehicles.

Supercomputer for Japan

ETA SYSTEMS, INC., has been awarded a contract to supply the Tokyo Institute of Technology with the most powerful supercomputer in Japan. The contract specifies an ETA10 with eight processors, claimed to be the fastest supercomputer in the world.

The ETA10 supercomputer will be used for structural analysis, graphics, and statistical applications in various engineering and research disciplines. The contract was valued in excess of $20m. (£11.2m).

APPOINTMENTS

Managing director of State Street Bank

Mr Stuart W. Parker, formerly chief executive of Rolls-Royce pension funds, has been named managing director, European area, for Boston-based STATE STREET BANK AND TRUST COMPANY. Mr Parker will be based in London where he will oversea the activities of State Street London Ltd., and subsidiaries in Munich and Brussels.

★

Mr John Tinker, assistant chief executive of Lex Automotive Group, has been appointed a non-executive director of ISAAC AGNEW (HOLDINGS), Belfast.

★

Mr Stuart Tabner has been appointed managing director of LIGHTNING WINDOWS, a company recently acquired by Whitecroft.

★

Mr David H. White has been appointed a non-executive director of CITYGROVE, a retail park property developer. He is deputy chairman of the National Freight Consortium.

★

From January 1 **Mr R. Vaman** and **Mr M.H. Albon** have been appointed to the main board of JOHN BEALES. **Mr J. Szymkiw** becomes company secretary in place of **Mr P.V. Rossall** following his appointment as commercial director of the company's refrigeration interests.

★

Mr Ken Chalk has joined the Manchester office of SPICER AND PEGLER as partner heading the corporate recovery and insolvency division. He was a partner in the Bristol office of Arthur Andersen.

★

Mr Howard Herskowitz has joined the board of ISC SYSTEMS, Milton Keynes, as software director. He comes from the Chicago office of the parent company, ISC Systems Corp, Spokane, Washington State.

★

Mr David Rogan has been appointed finance director of CROMPTON VIDOR, a Hawker Siddeley subsidiary.

★

Mr David A. Tate has become director of corporate affairs at TATE & LYLE and a member of the board's executive committe. He also becomes responsible for group personnel.

WIMPEY HOMES HOLDINGS has appointed **Mr Chris Cant** to the board as sales and marketing director. He was marketing manager.

★

WEST INDEPENDENT NEWSPAPERS has appointed **Ms Maureen Armstrong** as managing director of the Glasgow Guardian Group. She joins from Clyde Cablevision where she was marketing director.

★

Miss Rosalind Hedley-Miller has been appointed a non-executive director of BEJAM GROUP. She is a director of Kleinwort Benson, the group's merchant bankers.

★

Mr John Carson has joined BAILLIE GIFFORD & CO as a fund manager in its pension fund department. He was formerly a partner of Arthur Young.

★

GREAT PORTLAND ESTATES has appointed **Mr David Witty** has joined the board as a non-executive director. He was chief executive of Westminster City Council from 1977-84.

Television/Christopher Dunkley

Different - or indifferent?

Michael Grade's friends might say that everything he does, he does with passionate intensity. Thus at ITV he pursued the private enterprise route more keenly than anyone, even doubling the costs of football coverage for the entire industry when that meant advantage for ITV. Then when he joined the BBC he became the most enthusiastic Corporation man, embracing public service values and even arguing against his own conviction in urging commercial independence on Channel 4 solely because that happened to serve the BBC's purposes. He had to recant publicly on that particular point, in order to be acceptable to his new employers. His enemies might say that his skill was that of a chameleon.

Whether you regard this quality as admirable or despicable it seems silly to suggest that when he takes over Channel 4 he will trivialise it and turn its schedule into a vulgar ratings chaser. If chasing ratings was your chief concern you would be insane to move from being Controller of BBC1, with the immediate prospect of managing both BBC channels and the consequent command of 50 per cent of the audience, to become Chief Executive of Channel 4 with command of about eight per cent.

What seems far more likely, and much more in character, is that Grade will now adopt a "More Channel 4 than thou" attitude, and revel in out-doing his predecessor, Jeremy Isaacs.

In this, certain precedents which, in a fair world, ought to assist him greatly will almost certainly not do so. Imagine the reactions if Grade were to arrive at Channel 4 on New Year's Day 1988 and, a few days later, announce that his schedule for February would include the following:

- American football twice a week.
- The 1964 US sitcom *The Munsters*.
- Regular horse racing.
- *The Beverley Hillbillies*.
- A game show every weekday.
- The 1960 US sitcom about a talking horse, *Mister Ed*.
- A twice weekly soap opera with 60-minute mini-soap spinoffs.
- The 1964 US sitcom *Bewitched*.
- A Doris Day/Rock Hudson movie in peak time.
- The Waltons.
- Two hours of golf, twice a week.
- A Top 10 pop show.
- The 1965 US sitcom, *I Dream Of Jeannie*.

The wailing and gnashing of teeth, and the shrieks of "We told you so!" can easily be imagined. Yet every single item on that list was packed into last week's Channel 4 schedule by the keeper of the flame himself, Jeremy Isaacs. The weird thing is that, outside this column, nobody seems to have noticed. Indeed, throughout its five year history the channel has somehow managed to run a schedule with a higher American content than any other channel in Europe (over 30 per cent) while winning plaudits everywhere as the channel for the more discerning viewer.

The reason, I have come to believe, is tripartite. First, people simply do not know what is on Channel 4 because, at any given time, 92 per cent of them, on average, will be watching elsewhere. Secondly, when "opinion formers" do watch Channel 4 they watch the worthy minority programmes, not the soap opera or sport, and this applies even to television critics, most of whom rely nowadays on previews. The programmes which are previewed are, predictably, the worthy ones; not one of the programmes on the list above was given a press showing so far as I know. Thirdly, the foreign institutions which pour honours down upon Channel 4 are aware only of glories such as *Channel 4 News*, *Right To Reply*, and *Comment*: nobody tells them about *Bewitched* and *Car 54 Where Are You?*

To be sure, other channels also buy series off the American stockpile for the sake of their cheapness and popularity. But the odd thing is that while the BBC could justifiably claim that several of its current American series - *M.A.S.H.*, *The Untouchables*, and (when they remember to run it) *Bilko* - are classic items of television repertory, Channel 4's choices seem more cynical. They appear to be bought either because they are the cheapest time fillers available (*Bewitched* and *I Dream Of Jeannie* for instance) or simply because they are popular entertainment (*Hill Street Blues* and *Cheers* for example). In neither case is it easy to see how Channel 4's oh-so-jealously protected remit to "be different" is being served. There is not a channel in Britain, or anywhere else much, which would *not* show *Hill Street Blues* or *Cheers*.

This is not to suggest that Channel 4 deserves none of its laurels: there has, of course, been an impressive amount of innovation, and any fair minded person would have to join in the praise of *Channel 4 News*, *Diverse Reports*, some, though not all of the *Film On 4* productions, and several other series.

There has, on the other hand, been a lot of high-flown claptrap talked about some C4 productions. *Brookside* for example, which is lauded for its social awareness and celebrated for its meaningful sub-texts is actually a soap opera which is remarkably similar to *Coronation Street*. Both are named after roads, and in both cases the parameters of the action are defined geographically. Both are located on Merseyside, both come in half hour segments, and both are concerned primarily with the C, D and E sections of the socio-economic spectrum.

Flicking back through my notebook for the past week I find that the first C4 programme I watched was *Never Say Die*, the opening episode of a sitcom set in an old people's home. It was rather above average, and time may prove it to be outstanding, but nobody could honestly call it "something different" or a characteristic part of "a distinctive service", which are two of the central claims made for C4. *Hill Street Blues* was as good as ever - which means better than 90 per cent of British drama series - but nobody needed to invent Channel 4 in order to get it a British screening.

The coverage given to the Immigration Bill in *Dispatches* was indistinguishable from the treatment it might have received from *Panorama* or *This Week*, and *The Cosby Show* is another series which might easily be screened on any channel. Ditto for the sitcom *The Golden Girls*. The only programme which shrieked "Channel 4!" at you was *Big Words, Small Worlds* in which David Lodge proved that the ability to write a brilliant novel about the international academic conference circuit, with a light touch and lots of background on the *real* reasons for these beanos - sex, money, pecking order

Champions of Channel 4 will consider all this unfair. "You can't possibly have a channel consisting exclusively of new and different material," they will say, "there just isn't that much around, and even if you could find it, the viewing figures would be so low that you would not be able to stay in business."

Probably true. But we should, in that case, be more honest about Channel 4's achievements: it has won eight per cent of the audience by showing soap opera, American entertainment, and game shows, the three categories which encompass all of the current Top 10 programmes on C4. Into this familiar, even hackneyed, formula they have mixed a number of impressive but mostly very low rating minority series. Happily for those who run the channel, these have won a remarkable amount of kudos.

If that is the trick that has to be pulled, then I suspect Grade may be able to pull it with even more effect than Isaacs. Isaacs is rightly regarded as a model of integrity and inspiration among television professionals, but he is not famed for his scheduling skills. It would not surprise me if Grade grabbed half as much again for the C4 audience, and pushed the channel to 12 per cent.

But if he does manage that, look out for shrieking and gnashing of teeth and accusations of trivialisation via soap opera and old American films.

Doris Day and Bill Cosby: two typical Channel 4 offerings

Heart of a Dog/Moscow

Ronald Holloway

Among the cultural riches of *Glasnost* for the native Muscovite is the pleasure of having to choose between two stunning stage productions of Mikhail Bulgakov's long forbidden *Heart of a Dog* - further enhanced by the good fortune of comparing entirely different stage adaptations of the novella (written 1925, published 1968) in theatres located a stone's throw from each other: the Moscow Art Theatre (Stanislavsky Theatre) on Gor'Kogo Ulica, and the Moscow Youth Theatre around the corner on Sadovskich Pereulok.

But there is more to this theatrical phenomenon than that. Geta Yanovskaya, who directed the Alexander Chervinsky dramatisation of the Bulgakov novella at the Moscow Youth Theatre, noted in a FT interview that it took "a few months" to get official permission to clear the project, after which she rehearsed the play for five additional months before the premiere last May 22nd. But the Alexander Tovstonogov staging of the Arkadi Stavitsky version of *Heart of a Dog* - titled *The Diary of Doctor Bormental* - is currently going through the usual "string of premieres" to give "all our supporters a fair chance to participate in a major theatrical event."

As for which adaptation of the original is closer to the spirit of the master satirist Mikhail Bulgakov (1891-1940), this is still an open question. However, judging from the evidence, it seems that *Heart of a Dog* is comparable with the likes of Tengis Abuladze's milestone Georgian telefeature *Repentence* for its fantasy-filled, psychological analysis of socialist society under the personality cult.

No doubt, more stage productions of *Heart of a Dog* will surface in the future, in the West as well as the East. As with many of Bulgakov's works, it lends itself to dramatic nuance and fantastic optical effects. The idea of an eccentric scientist, whose income is fattened by curing male impotence with a love of Verdi's operas (particularly *Aida*), carrying out mad experiments in the midst of the notorious Russian famine of the mid-twenties, aptly underscores the professor's bombastic life-style. It also profits from the author's vision of impishly rolling motifs from Faust, Frankenstein and Pygmalion into a mish-mash of his own; the brain of a criminal (slain in a brawl) is transplanted into the head of a dog. The result is an adverse rearing of the dog-to-human, Sharikov, who only too quickly takes note of his surroundings, matures into a thief, a Roue, and - what's worse - a much feared and despicable party denunciator. "Out of a good dog we have created a bad human," declares a voice of common sense, the housekeeper - and the experiment is thereupon reversed, just in the nick of time.

Of the two productions, Yanovskaya/Chervinsky's *Heart of a Dog* stands out for its visual flair. Professor Preobrazhensky's spacious apartment is stuffed with what appears to be abandoned props from a pre-revolution *Aida* set-design; an Egyptian quartet straight out of the opera's chorus line happens on the scene every now and then to punctuate even further the absurdity of the entire situation; and the layers of farce are capped in one critical, calculated scene when an apparition of Stalin himself eerily appears on the stage before the startled household.

Yanovskaya's decision to personify the canine creature from the start, setting the opening scene on the streets with the hungry beast howling his head off until the passing professor stops and takes him in, allows Alexander Vdovin to develop his Sharikov role - and he plays it to the hilt; brashly chasing a skirt, vulgarly gulping down a meal, menacingly threatening to "get even" with his master by fingering him to the secret police.

By contrast, Tovstonogov/Stavitsky's *The Diary of Doctor Bormental* begins with a real dog on stage, waiting until the end of the first Act to introduce a moaning half-creature searching for a way out of his spiritual vacuum. From then on it's a concise exposition of political shenanigans, as Sharikov cleverly connives to climb his way up the ladder of raw power to the point where he's practically ready to take over the professor's luxurious apartment at the point of a gun for his own devious purposes - at which point Doctor Dormental, the Assistant Doctor who is keeping a diary, makes the decision to disarm the culprit and return the dog's brain back to its owner.

One can sense throughout the presence of evil lurking in Sharikov's black heart in Tovstonogov's production. Indeed, the costumes and sets offer little relief from the gloom of the dilemma, and it is only Vladimir Steklov's Sharikov - first impulsively clumsy, later agile and acrobatic - who ultimately charms the spectator in this sardonically dramatic tug-of-war. A clash, to a great extent, between what appears to be little more than a lesser and greater evil.

Almost Persuaded/ICA

Claire Armitstead

Annie Griffin first crossed my sightlines in *Blackbeard the Pirate* earlier this year, a show subtitled A Melodrama in Several Parts, which proceeded to break levels (and the rules) in a way that was as interesting as it was entertaining. In *Almost Persuaded* she shifts her attention to a country and Western tradition which, she points out in a final sequence with her microphone angled at a succession of record sleeves, is as relevant to fans of the Judds as it was to those of their forerunner Kitty Wells.

The show, a 75-minute expose of the machinations behind the music, takes its title from a Tammy Wynette track which has doubtless closed a few country club evenings in its time. Played loudly and often, mimed to or listened to, it gathers impact during the evening as both an indulgence and an exortation; a fantasy and a role model, which the woman in the red dress ("I want you to think about why a woman wears a red dress") plays to herself alone at her home after she has taken a solitary taxi home.

Griffin, who devised the show herself with advice from Neil Bartlett and Laura Ford, is a performer of considerable poise and a command which allows her to receed momentarily into the background as if inviting the soundtrack to take a star turn. This she does frequently, picturesquely lighting a cigarette and allowing strains of "Please Release Me" to wash over her in a break from a narration in the persona of a hardworking farmer abandoned with two small children by her husband.

The country tradition is, of course, full of such gut-wrenchers, giving a sort of weight to the programme note quotation from Loretta Lynn – ". . some of the songs are about ourselves, really. We ain't no better than anybody else." But to accept that statement at its face value is to ignore the ironies that are woven through the work. In the first half (this one in figure hugging white sateen with cowgirl fringe) Griffin prefaces her work with a exposition of the artifice of any such identification: waving a glittery scarlet stilletto shoe, she insists: "If anyone tells you they make you weak they're wrong, cos they make you strong."

This one of several titbits of wordly wisdom for the women in the audience is followed by a tetchy remark (presumably to the men) that she cannot talk directly to them because that would be breaking the rules, substituting the reality of vulnerability for its illusion.

In spoken lyrics of a beautiful banality she scores points about stereotyping and identification that would be more significant if they were not, basically, so obvious. We have woman as victim, as homemaker, as mother, all finely defined, but the limitations of the piece are in the choice of a medium that is ultimately its own best parody.

Racine opens Jonathan Miller's Old Vic season

Jonathan Miller's 1988 Old Vic season opens on January 19 with Janet Suzman in the title role of Racine's *Andromache*, directed by Mr Miller and translated by Eric Korn.

Designed by Richard Hudson, other members of the cast include John Barron, Peter Eyre and Penelope Wilton.

A Month in the Country

Michael Coveney

The admirable Cambridge Theatre Company is at the Richmond Theatre this week with a play that has become a staple supplementary to Chekhov. Each revival in the British theatre since the unforgettable Ingrid Bergman and Michael Redgrave version of 1965 has confirmed the view that Turgenev's play, which dates from 1850, is no less extraordinary as psychological realist drama than the Chekhov masterpieces that followed.

But as Isaiah Berlin has suggested, there is more here than the tart comedy of a provincial married lady falling in love with her son's tutor. The student tutor, Belyaev, is one of the new generation of dissident positivists. Natalya's husband, Islayev, here played with a tremendously urgent bustle by Colin McCormack, also belongs to the forces of progress, with his new winnowing machine, architectural plans for the weir and outhouses, and concern for the workers' welfare. A new world is coming as Natalya languidly indulges her sense of dissatisfaction.

The crisis point is carefully prepared and skilfully plotted, but the mechanical mainspring lies in the analytical ardour of Rakitin for Natalya. She turns to him for help once infected, as she puts it, by the tutor's youth. He callously agrees to fix the wedding of Natalya's ward Vera, herself head over heels in love with Belyaev, to a dithering bore.

As in Chekhov, there are good parts galore and Bill Pryde's production does them reasonably proud. The central duet between Celia Imrie and Richard Heffer is not played at the expense of anyone else. At the same time, a lot is missing beyond Natalya's state of constant tetchiness. Miss Imrie's skittishness is rather comic and nasty, not a side effect of sexual and spiritual turmoil. Mr Heffer is a pleasantly accommodating Rakitin, nearer to the resigned sadness of Jacobi and Redgrave than the critical ferocity of Nigel Terry at the National a few years ago.

It is important that Natalya exudes some sort of Europeanism, the sort of worldliness that makes her both intriguing and silly. That is missing, too, and Miss Imrie is not helped by being confined to the one inelegant bustle and skirt for three days. There are some things that even under-funded touring companies cannot afford to skimp on.

The opening stage picture is handsome enough, Natalya's remarks about lacework taken up by designer Poppy Mitchell to create a shimmering ornamental white interior with a matching green landscape beyond. But elsewhere the dacha does not feel lived in. The garden is ugly, the fourth act exterior blighted by flimsy pillars.

The new translation by Patrick Miles follows Isaiah Berlin in many respects but is less attentive to telling characteristics of speech. The great matter-of-fact proposal scene between the doctor Shpigelsky and a resident spinster is beautifully done by Patrick O'Connell and Helen Fraser. Gerard Logan's Belyaev is vibrant but too wet to make that vital connection with his intellectual soul mate Bazarov in *Fathers and Sons*. Maggie O'Neill is an attractive Vera, Sophie Thompson eye-catchingly funny as a maid who picks as many raspberries as she blows.

The production moves on next week to the Theatre Royal, Bath, and plays a final week in December at the Aberystwyth Arts Centre.

Triple Bill/Richmond

Martin Hoyle

There is a perceptible air of padding in the triple bill at Richmond's enterprising Orange Tree Theatre. Not that the two half-hour monologues which comprise the first part of the evening fall below this theatre's standards for new writing; they merely cry out for radio. Gillian Reynolds' direction does no more to make them theatrically valid than would a party guest, prevailed on to do a turn, standing in the middle of the room with a chair which (in the first piece) he occasionally sits on and (in the second) ignores

The author Graeme Fife has based his first solo on the eponymous Reg, the proud and cheerful lavatory attendant who has made the Covent Garden public loos into a tourist attraction complete with changing-room for trendy purchases, music and pictures, most provided at his own expense. Edward de Souza, none too sure of his words, ranges through Reg's past in the merchant navy and army, recounts the odd quirky experience in his beloved loos (his disgust at such incomprehensible graffitti as "Thank you very much, Mr Wagner. We'll give you a Ring next week," is palpable) and generally proves how what can be gripping in real life needs shape, form, point and punchlines when delivered to an audience.

In *Praise Be to God* a spiteful cook at the court of Louis XIV gossips to us about the arriviste Lully, the "little tart" brought back from Italy by the Duc de Guise, who has worked his way up to virtual controller of French musical life. Reminiscent of one of Browning's crosser dramatic monologues, the piece touches on the Italian vice ("the king's brother practises it"), the rage for poisoning at court, and cookery including pastry-making, as one of the arts (of which, he adds, as an afterthought, architecture is a branch). Mr de Souza, still in normal clothes, delivers all standing centre stage - to an unseen microphone, one feels.

The second part of the compilation provides real theatre. The young actor Barry Killerby is both writer and performer in *Houdini*, and attacks this mixture of personal recollection, agonised introspection and show-business secrets with tremendously full-blooded relish. He rolls, writhes and threshes around the floor when escaping from invisible bonds, gasps and struggles in an unseen straitjacket, enacts a seance as a phoney medium, rails against spiritualism and pours contempt on the gullible (and gulling) Conan Doyles.

The death-defying career of the Hungarian-born "magician and self-liberator" emerges as a metaphor for - well, literally defying death, as he wonders about the effect of concentrating mind, body and spirit simultaneously (Arthur Conan Doyle maintained that Houdini actually dematerialised during his escapes) or yearns to make contact with his dead mother. Moments of humour leaven the metaphysics: he enacts the first gauche meeting with his loyal wife, reveals some of his tricks. Richard Mangan directs what may be the escaper's last evening, mysteriously locked into his dressing-room ("I knew you were coming, Death"), and makes amends for the rest of this uneven triple offering.

Mikhail Pletnev/St John's

Dominic Gill

Mikhail Pletnev is one of the prizewinning younger generation of Soviet pianists we have heard comparatively little of in this country. In the past five years he has performed the odd concerto in Britain, and given two substantial recitals in London; yet we cannot feel we really have the measure of his playing yet. He is clearly a major talent; but there is a reserve in his performance – especially an emotional reserve – which could still be interpreted as initial shyness, or which could actually betray some deeper and more more fundamental insufficency.

At both of his previous solo recitals, the brilliance of the playing has never quite convinced. That the technique is brilliant there has never been any doubt: at his short BBC lunchtime recital at St. John's on Monday, Pletnev made the sweetest, lightest work of the most complex figurations of the Bach G minor English Suite no.3 – the kind of austere and delicate sweetness which only the most deft and rigorous technical command can ever achieve. Emotionally too it was a grave and constrained reading. He took the great Sarabande (already one of the slowest and most concentrated numbers in all of Bach's Suites) exceptionally slowly, with all of the focus on the harmonic, rather than the declamatory or lyrical, detail. The Gigue had splendid clarity and consistency, and no superficial glitter; but it had no joyousness either. The whole performance had the air of somehow proving a point, rather than proving a masterpiece.

There were many fine things in his account of Chaikovsky's sonata (really Chaikovsky's only one, although labelled "no.2") – the very force of utterance, and the variety of touch and timbre, in the first movement was impressive; and the quiet tendrils of the andante were exquisitely unwound. Yet compared with, say, Cherkassky's wonderful performance of the same work, Pletnev's was both brilliant and curiously heartless, without centre, as if the ingredients of some very precise rote, meticulously, almost fearfully, obeyed, had taken over entirely from those qualities of expressive spontaneity and original, individual re-creation. Impressive: but once more unsatisfying.

Arts Guide

November 20-26

Theatre

LONDON

Separation (Hampstead). Powerful sequel to Duet For One by Tom Kempinski using that play as furniture in the transatlantic love story of a crippled actress and overweight agoraphobic playwright. David Suchet and Saskia Reeves give all in Michael Attenborough's production (722 9301).

The Rover (Mermaid). Jeremy Irons roisters into town in the RSC's Swan production by John Barton of Aphra Behn's rollicking comedy. It plays in repertoire with the Chernobyl play, Sarcophagus, an urgent but clumsily crafted hospital drama set in a terminal radiation clinic as the first victims of the disaster are wheeled in (236 5568/638 8891).

A Man For All Seasons (Savoy). Charlton Heston begs no favourable comparison with Paul Scofield as Sir Thomas More in a leaden production of a play best left to amateurs and schoolchildren (836 8888).

Antony and Cleopatra (Olivier). Peter Hall's best production for the National Theatre he leaves in 1988 brings this great but notoriously difficult play to thrilling life. Judi Dench and Anthony Hopkins are battle-scarred lovers on the brink of old age. Dench is angry, witty and ultimately moving (928 2252).

The Phantom of the Opera (Her Majesty's). Spectacular and emotionally nourishing new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. Dave Willetts has succeeded Michael Crawford as the Phantom (839 2244, CC379 6131/240 7200).

The Balcony (Barbican). Sadly dated and heavy-handed opening to the RSC's Genet retrospective, not helping to fight suspicion that the RSC, certainly in London, is stretched way beyond its creative capacities. Terry Hands directs, Farrah's set looks like a cheap pink brothel and the action, a dull lot, chump around on high boots in big plodding costumes (628 8795).

Follies (Shaftesbury). Stunning revival, directed by Mike Ockrent and designed by Maria Bjornson, of Sondheim's 1971 musical in which poisoned marriages nearly undermine an old burlesque reunion in a doomed theatre. Four new songs, improved book by James Goldman. Cast led by Dolores Gray, Julia McKenzie, Diana Rigg, Daniel Massey. All good (379 5399).

Melon (Haymarket). Alan Bates practically good in new Simon Gray, clumsily directed by Christopher Morahan, about a jealous publisher viewed in flashback from a psychiatric ward after a breakdown. Menopausal mutterings; not vintage Gray (930 9832).

Serious Money (Wyndham's). Transfer from Royal Court of Caryl Churchill's slick City comedy for champagne-swilling yuppies: how the Big Bang led to class tumult and barrow-boy dealings on the Stock Exchange. Hot and livid, but new cast deemed less good (836 3028, CC 379 6565).

A Small Family Business (Olivier). Brilliant new Alan Ayckbourn play about Britain on the fiddle in greedy times, selling out to foreigners and keeping it simultaneously in the family. A comedy thriller on the large scale (928 2252).

NETHERLANDS

Amsterdam: Garden Hotel Theatre. Lord Greystoke Productions presents The Woolgatherer, a modern comedy by William Mastrosimone directed by John Hartnett (Wed to Sat) (64 21 21).

NEW YORK

Fences (46th Street). August Wilson hit a home-run, this year's Pulitzer Prize, with James Earle Jones taking the powerful lead role of an old baseball player raising a family in an industrial city in the 1950s, trying to improve their lot but dogged by his own failings (221-1211).

Cats (Winter Garden). Still a sellout, Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually exciting and choreographically feline, but classic only in the sense of a rather staid and over-blown idea of theatricality (239 6262).

42nd Street (Majestic). An immodest celebration of the heyday of Broadway in the 1930s incorporates gems from the original film, like Shuffle Off To Buffalo, with the appropriately brash and leggy hoofing by a large chorus line (977 9020).

A Chorus Line (Shubert). The longest running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions (239-6200).

La Cage aux Folles (Palace). With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages barely to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers (757 2626).

I'm Not Rappaport (Booth). The Tony's best play of 1986 won on the strength of its work-of-mouth popularity for the two oldsters on Central Park benches who bicker about life, with a funny plot to match (239 6200).

Les Miserables (Broadway). Led by Colm Wilkinson repeating his West End role as Jean Valjean, the magnificent spectacle of Victor Hugo's majestic sweep of history and plot in pageantry and drama, if not strict adherence to its original source (239 6200).

Starlight Express (Gershwin). Those who saw the original at the Victoria in London will barely recognise its American incarnation: the skaters do not have to go round the whole theatre but do get good exercise in the spruced-up stage, with new bridges and American scenery to distract from the hackneyed pop music and trumped-up silly plot (586 6510).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. But it has proved to be a durable Broadway hit with its marvellous lead role for an agile, engaging and deft actor preferably British (947 0033).

The Mahabharata (BAM Majestic). Peter Brook's nine-hour interpretation of the world's longest poem inspired the refurbishment of an old Brooklyn vaudeville theatre to accommodate it for a three-month stay as part of the Brooklyn Academy of Music's New Wave Festival. Ends Jan 3 (947 5866).

TOKYO

Kabuki (Kabuki-za). The matinee plays are best. Excellent informative English earphone commentary and detailed programme notes. Newcomers may find one play enough but the first-timer's one-act ticket on the fourth floor is not good value. Sightlines are poor and there is no English earphone guide. Instead, purchase a third floor ticket. Kabuki-za, near Ginza (541 3131).

Starlight Express. The original London production in an ideal setting - an 10,000-seater arena. National Stadium Yoyogi, near Harajuku. (369 1166).

Takarazuka All Girls' Revue. Musicals by this unique Japanese phenomenon in which the women play male roles in the antithesis of Kabuki. For visitors this is an essential part of the Japan cultural experience. With typical Japanese earnestness and innocence and without a frisson of camp, the lavish stagings and huge cast have to be seen to be believed. This is the final appearance this year of the most popular stars, Saori Mine, promising an even more spectacular show than usual. Detailed English programme available. Takarazuka Theatre, Hibiya, near Ginza (591 1711; 201 7777).

Saleroom/Antony Thorncroft

Lion dish tops sale

A fine and rare Yuan blue and white dish of the 14th century, showing a Tibetan lion leaping from a high rock, was the top lot at Sotheby's Hong Kong sale of Chinese ceramics yesterday. It sold for an impressive £536,970. No similar dish seems to have survived, accounting for the price.

A very large yingping figure of Guanyin, of the Yuan dynasty, sold for £286,898. It probably occupied an important position at a place of worship. It is one of the biggest surviving examples of Chinese porcelain. A very rare faceted early blue and white ewer, also Yuan, made £75,807. Only one other ewer of this shape has been written about. The sale totalled £2,026,626.

At Phillips sale of continental paintings the top price was the £33,000, at the bottom of the estimate, paid for "Bei der Hexe" by Carl Spitzweg. Otto Hayden's "On the banks of the Nile at Cairo," sold for £19,800, at the low end of the estimate. There was some good Japanese buying, which suggests that they are extending from their traditional love, Impressionists, into more basic European paintings of the 19th century.

A Persian Koran of around 1100 AD fetched the top price, £9,350, at Christie's sale of Islamic and South East Asian works of art yesterday. A Mughal miniature of around 1740 showing a ruler holding court made £8,250. In a glass sale a pair of south Staffordshire opaque tea caddies of around 1760 more than douled their estimate, selling to Asprey for £3,960.

A French bronze figure of a man carrying a child, dating from the early 17th century, sold for £178,378 at Sotheby's in New York on Monday. The price was over six times the estimate, mainly because the two other versions of this are already safely in museum collections (although these days this is no guarantee that they will not appear on the market). A Paduan bronze of a warrior on horseback, from the first half of the 16th century, made £65,405. Once again the five known replicas are in museums.

A Franco-Flemish tapestry, known as the "Vasco de Gama," did well at £68,405. All in all the auction of European works of art was comfortably on target, realising £1,214,136 ($2,246,155), with 13 per cent unsold.

A decorated gold sheet fragment from the tomb of Tutankhamun, stripped by robbers in the distant past, is up for sale at Christies on December 11. It was originally attached to an item of furniture, perhaps a shrine, throne or casket, and shows the coronation of the newly crowned king. It could have been looted soon after his death in 1343 BC, after which the tomb was resealed, not to be opened until Howard Carter came across it in 1922.

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BRACKEN HOUSE, CANNON STREET, LONDON EC4 P4BY

Telegrams: Finantimo, London PS4. Telex: 8954871

Telephone: 01-248 8000

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Action time for EC steel

FOR MORE than a year, the European Community has deployed all its fabled talents for procrastination to avoid taking hard decisions on its steel industry's mounting excess production capacity, expected to total 30m tonnes by 1990.

Today, the EC Commission is due to make one more attempt at a solution, to be put to the Council of Industry Ministers on December 8. Having failed to secure a negotiated agreement on EC-wide plant closures, it must now decide whether to carry out its threat not to renew the seven-year-old regime of output quotas after they expire at the end of this year.

The ending of controls, though in stages rather than all at once, has been recommended by a committee of "wise men" appointed by the EC last month. In its latest exercise in passing the buck. The committee concluded that steelmakers' addiction to quotas is so chronic that it has robbed them of the resolve to cut supply by enough to bring it into line with demand.

The commission is partly to blame for the lack of progress. It has been much too indecisive and reluctant to lay down the law, preferring instead to wait for a consensus to form among stubbornly recalcitrant governments. So timid has its approach been that, even at this late stage, many EC governments apparently doubt that it has the courage and authority to go through with its threat to end quotas.

Excess capacity

However, the impasse also stems from a more deep-seated problem: confusion, at both the community and the national level, over whether steel policy should primarily serve industrial or social objectives.

This unresolved dilemma is the main stumbling block to further streamlining. The hard core of excess capacity, about 10m tonnes, is in large integrated steel plants, many of them state-owned and sited in politically sensitive areas of high unemployment. In several cases, indeed, their locations were deliberately chosen to promote regional development.

The EC's policy ambivalence has brought it the worst of both worlds. The rigid quota regime penalises efficient producers, discourages technological innovation and fragments the market without eliminating some of the most obstinate excess capacity, while overmanning and high wage rates have made the costs of maintaining - and shedding - labour at many steel plants exorbitantly expensive.

Mr Lou Schorsch, a steel expert with the management consultancy McKinsey, who has advised the EC, calculates that some $40bn in subsidies have already been pumped into measures to stave off or absorb the social effects of restructuring. Since the industry crisis began in the late 1970s, average subsidies to each employed steelworker are estimated at $50,000 - and more than twice that to every worker made redundant.

Rational course

Though Brussels has clamped down on operating subsidies in the past few years, there is no case for continuing to exempt steel from the competitive pressures which are reshaping many other European industries, not least the steel consumers, economically a vastly more important group. What clearer evidence could there be that quotas have outlived their usefulness than that their stoutest defender is now the West German industry, Europe's strongest?

The only rational course is to expose steel producers to market disciplines and to deal separately with the short-term social consequences of restructuring and closures. Mr Peter Sutherland, the competition commissioner, has recently suggested the EC quota regime should be abolished immediately and that governments should cover the cost of redundancies out of their national budgets. Such a scheme would, of course, need to be strictly policed by Brussels to ensure that all future subsidies were not used to prop up the industry.

With steel prices relatively firm and almost two thirds of EC's steel stripmakers in profit, market conditions offer no pretext for delaying a return to free production. By prolonging the status quo the commission would not only be signalling its readiness to sacrifice Europe's economic dynamism and efficiency to special pleading by a pampered minority interest group; it would also be increasing the pain, cost and disruptiveness of the eventual adjustment which the steel industry must inevitably face.

A respectable landlord

SO MUCH of the thrust of British housing policy under Mrs Thatcher has been directed towards the privatisation of the local authority housing stock that the Government's attempts to revive the private rented sector have looked distinctly half-hearted by comparison. However, the tentative move to deregulate the rental market - first, through assured tenancies and now through the proposed removal of Rent Act controls on new tenancies - appears to be gathering momentum. That is one of the messages to be drawn from Nationwide Anglia's decision to lend £600m to a joint venture which will buy and build homes to rent.

The logic of the deal is that Nationwide Anglia stumps up the money while a former director of housing at Glasgow District Council provides the management and takes a share in the equity. Between them, they hope to own and manage more than 40,000 homes by 1992, aiming for 5 per cent of the rented market in Glasgow, Edinburgh, Dundee, Liverpool and Newcastle, and 1 per cent of the market in London.

The joint company expects to operate across the whole spectrum of the rented sector, making a worthwhile dent in local authority waiting lists and taking some of the pressure off housing associations and co-operatives. The ability to invest on this scale clearly reflects the opportunity that is now opening up to charge market rents; and the company proposes to engage in a sizeable building programme, as well as purchasing existing properties from local authorities.

Urgent problems

The prospect of Nationwide Anglia, and indeed other building societies, coming into the rented sector in the guise of landlord as well as secured lender is very welcome. The original aspirations of the building society movement in relation to home ownership have now been largely fulfilled.

Addressing the urgent problems of the rented sector is a constructive response to deregulation, which is very much in keeping with character of this mutually owned part of the British financial structure. Any corporate landlord in which a building society is a key participant ought to prove thoroughlyacceptable to tenants, who in the present case will have the right to elect representatives to management boards.

There are, however, major questions about the likely demand for such accommodation and how far the building societies have it in their power to improve conditions in the private rented sector. Nationwide Anglia claims there is a substantial demand for good quality, well managed rented housing to cater for single and highly mobile people, together with young and elderly couples. Perhaps so; but rented accommodation is far from tax efficient. In most cases the individual who can afford to pay a market rent would be better off buying a home.

Relatively tough

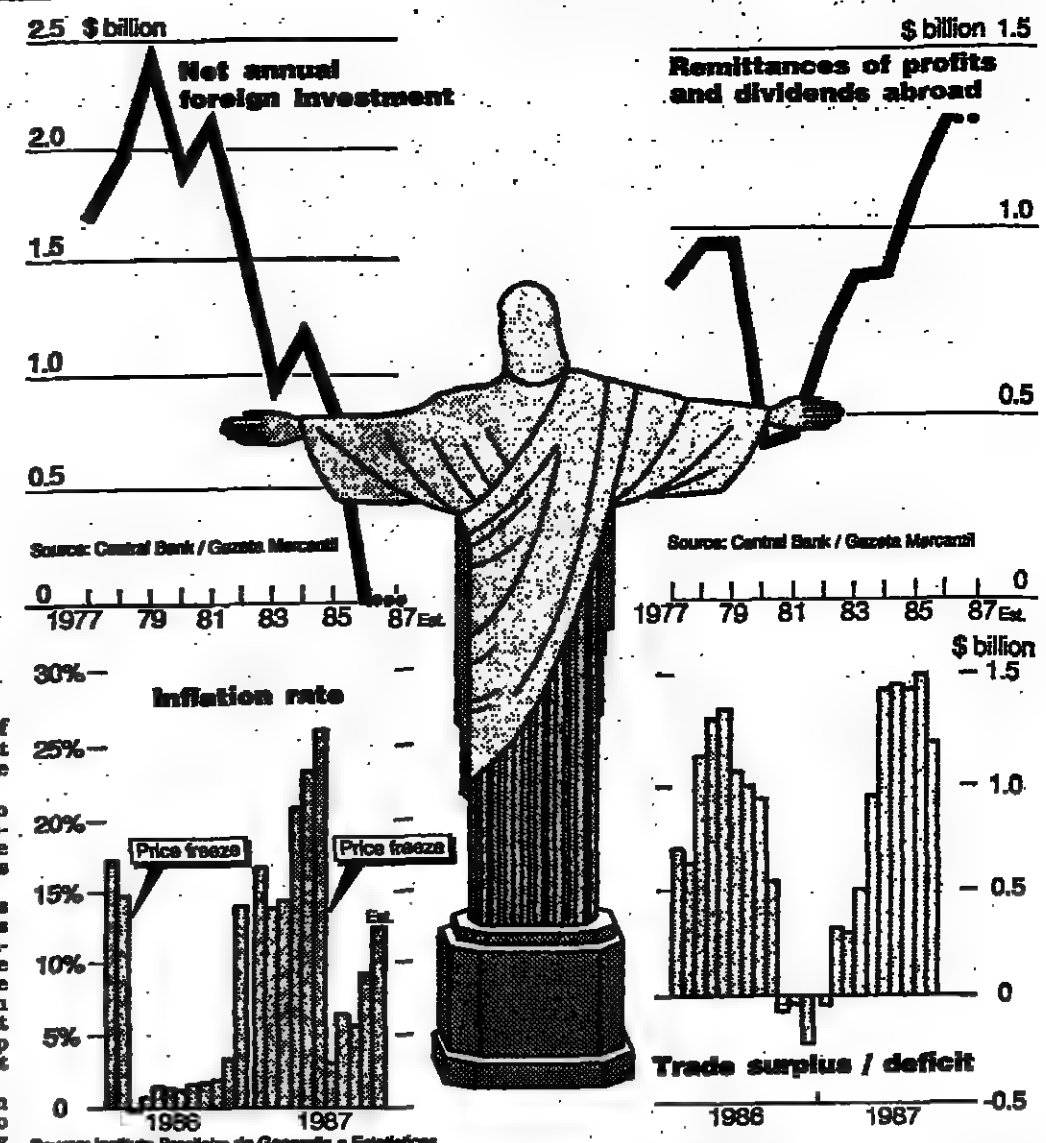
No doubt Nationwide Anglia is right in thinking there is a trade-off, for some people, between tax advantage and the benefit of property management or easy mobility. Yet its ability - and that of any other building society - to improve conditions at the lower end of the market is wholly dependent on the readiness of Government to maintain housing benefit and local authority grants. The problem of the deregulated rented sector is not a shortage of finance, per se, but the poverty of many tenants and the distortion of returns on investment in housing brought about by a tax structure that heavily subsidises home ownership.

Only time will tell the full extent of the demand for rented accommodation at market rents. If it turns out to be substantial, is it conceivable that the building societies will over-stretch themselves by investing too heavily in very illiquid assets?. The short answer is that building societies have always borrowed short and lent long, and that they have escaped major disasters in recent years through a combination of innate conservatism and prudential supervision. The capital adequacy requirements that are proposed for direct building society investment in property are also relatively tough.

That is not to say that deregulation involves no risk. It presents a major challenge to a movement whose management's past experience has been geared to the simple tasks of collecting deposits and making secured loans. But the biggest risk in owning rented accommodation is political. Any move by a future government to re-regulate the rental market would cast the investment in a very unhappy light.

Ivo Dawnay reports on the gathering economic and political crisis in Brazil

Now the carnival is over



"BRAZIL IS TODAY on course to ratify an irrational choice which will simultaneously make for backward technology, xenophobia, statism and the most nefarious type of patriarchal capitalism to be seen in its history - all this in the name of progressivism."

This scathing view of the Brazilian Congress's draft constitution came last month in a 10-page magazine article by Prof Mario Henrique Simonsen, the former planning and finance minister. Outside the political hotbed of Brasilia, there is widespread agreement with his verdict.

The country's outlook is now as grim as at any time since the dark days of economic and political crisis before the 1964 military coup. Ideological "shi'ites" - as the politicians have been dubbed - have taken over the Congress, yet stubbornly refuse to legislate an escape route for the economy.

In the Planalto Palace, an enfeebled President Jose Sarney, in power since May 1985, has given up his battle to sustain a five year term of office. Instead, he has turned back to his plan to press ahead with a $2.4bn (£1.35bn) railway project to link his home state with the wealthy south - a scheme undereval-uated, desired by few and already tainted with allegations of corruption over contract tendering.

Candidates for his succession are already jockeying for position for an election in a year's time which promises to sell personalities not policies. Before the new president's inauguration in March 1989, a continuing political vacuum looks inevitable.

Rarely has the morale of Brazilians been so low, or the sense of impending doom been more tangible. As the prospect of a world recession threatens further to worsen the country's plight, few can see a way out of the crisis.

A growing coalition of economists and businessmen have an answer, however, and their prescription is relatively simple: Brazil must abandon its isolationist course and adopt modern, market-oriented entrepreneurial capitalism in an economy alive to the concept of world interdependence. But if their argument sounds persuasive, it has yet to find any significant constituency in the utopian world of Brasilia, where the traditional concept of the patriarchal state - its jobs and favours - entrenches a conservative vested interest in politicians from left to right.

In short, Brazil's political establishment is now all but at war with the society it is supposed to represent; a bloated public sector is in open conflict with an investment-starved private one.

Why has the Brazilian dream of rapid transition from the third world to the first gone so rapidly and dramatically wrong? The answer may lie in the sudden halt to almost 40 years of continuous growth, averaging an impressive 6 per cent a year.

The slowdown in the economy has cruelly exposed the clumsiness and weight of the bureaucracy and, as criticism has mounted, powerless politicians in the legislature have turned foreigners into the scapegoats for the country's ills.

If evidence were needed, it came in 10 days this month in three separate clashes between the politicians and foreign businesses. The first centred on Autolatina, the holding company set up last year to combine the political and industrial weight of Ford and Volkswagen. In outright defiance of the authorities, the company announced price rises on its cars well above those officially handed down.

> **The political establishment is all but at war with the society it is supposed to represent**

It pointed out that the government had failed to carry out commitments to maintain a pricing policy that guaranteed profits and that their losses were now running at some $1.5m a day. The case is now in the courts.

The second clash came when the committee drafting a new constitution voted to force foreign oil distribution and mining companies to surrender a majority shareholding in their operations to Brazilian partners. In the ensuing uproar, Petrobras, the state oil company, private Brazilian firms and even the industries' trade unions united behind the foreigners.

To round off a disastrous week, Brazil found that SEI, the highly nationalistic agency charged with protecting the country's closed computer market, had triggered a trade war with the US by unilaterally banning imports of the MS-Dos software programme made by Microsoft.

Efficient industries, including state companies, consequently threatened with US retaliation are asking why they should be penalised to protect an artifically-created sector that sells out of date and often pirated product at prices way above those on the free market.

All of these rows are likely to be defused through compromises. But the damage to the confidence of foreign investors has already been done.

With domestic savings deposits totalling just 16 per cent of gross domestic product (GDP), incoming foreign capital is vital to the economy. Net new inflows are now down from a high of $2.4bn in 1979 to near zero, while profit and dividend remittances are up from $456m in 1981 to a forecast $1.3bn this year.

There is little elsewhere on Brazil's economic horizon to encourage capital spending by the private sector. Monthly inflation is now forecast at about 12 per cent this month and heading for the upper teens by February. Wages, like unemployment, are rising, but consumer spending is down.

GDP growth, which needs to reach 6 per cent a year to absorb 1.5m new workers annually, may barely achieve 2 per cent and that largely through a better harvest. Industrial output is expected to shrink in the New Year.

The money supply is out of control. The public sector deficit, originally targetted at 3.5 per cent of GDP, is now expected by some economists to near 7 per cent.

Mr Luis Carlos Bresser Pereira, Brazil's likeable Finance Minister, is privately well aware that public sector spending must be tackled. His latest plan, now imminent, proposes once again to attempt new spending cuts combined with tax rises.

But Mr Bresser is treading on thin ice. His pragmatic interim deal with the commercial banks on rescheduling the country's $68bn medium term debt has been fiercely attacked by his own party, the all-powerful Brazilian Democratic Movement (PMDB). He could fall shortly.

The PMDB does not see much room for public sector cuts. Its local government deputies in one state had no difficulty this month in voting themselves annual salaries of $91,282 (£50,186) when the national minimum wage, endured by more than 70 per cent of the workforce is just $452 a year.

If the economic outlook is bleak, the political landscape is hardly less so. The draft of the new constitution, designed to map out Brazil's political future after years of military rule, cuts the president's term of office to give elections in November next year. And the 93-member drafting committee this month adopted a clause introducing a parliamentary system of government next March. The move, which represents a radical break from Brazil's traditionally powerful presidential regime, was voted through in part to wrestle power away from President Sarney.

Many believe this latter proposal will fall when the final text is voted by a plenary session of Congress as new presidential elections now look unstoppable. These promise a full year of fierce, not to mention expensive, political in-fighting, during which drastic cutbacks on public expenditure are unlikely to figure high in candidates manifestos.

If parliamentarism is rejected, some warn that the leadership crisis will force earlier presidential elections, possibly before June.

But there are, as yet, no obviously appealing presidential candidates and certainly none with clear prescriptions for the country's social and economic ills.

A poll conducted by the respected Rio de Janeiro daily, Jornal do Brasil, last weekend found that even the most popular pretender to Sarney's crown - ex-governor Leonel Brizola - commanded only 15 per cent support with more than 48 per cent saying they would not vote for him in any circumcumstances.

In the interim, the 559 congressmen must shuffle once more through a final text of the constitution whose draft is rife with wishful thinking. It includes such provisions as guarantees of a job for life for all those employed by a company for more than three months and inflation-indexed pensions based on an employee's last salary - concepts not even dreamed off by first world trade unionists.

The vast majority of this "social chapter" will be excised during the amending process that begins this week. But Brazil is still left with a dominant majority party, the PMDB, whose economic policy demands full employment and no recession without any strategic blueprint as to how to achieve them.

Two decades in the political wilderness have left the PMDB's thinking locked in the anachronistic utopianism of the 1960s and either unprepared for or incapable of coping with the responsibility of power.

While elsewhere, from the Soviet Union to Spain, countries are falling over themselves to attract foreign capital and increase competitivity, Brazilian politicians are still obsessed with post-colonial neuroses such as the need to establish "national sovereignty" over the country's industrial base.

Moreover, instead of privatisation and deregulation, a large proportion of the draft constitution is dedicated to quite the reverse in an economy already more than 50 per cent controlled by the state.

Professor Helio Jaguaribe, the Rio de Janeiro-based political scientist, attributes the most acute problem to atrophied lines of communication between business and other interest groups with the political establishment.

"Brazil, the most modern state of the third world, has the most primitive party system, absolutely unable to provide the direction needed by a modern country," he argues.

Another factor of importance is the strong personal loyalties that dominate Brazilian politics far more than policy. A good example is that of Mr Carlos Edouardo de Freitas, the head of the Central Bank's international department and with responsibility for new regulations on debt-to-equity conversions.

Mr Freitas, foreign bankers claim, is almost alone in the Central Bank as an opponent of debt equity swaps, but because he is a close ally of Mr Ulysses Guimaraes, the powerful leader of the PMDB, he will remain in his job.

With perhaps two months for the new constitution to be completed, Congress now has very little time to make its choice between open market, free enterprise capitalism and an alternative that Prof Simonsen describes as "Banglania" - Albanian isolationism and Bangladesh style poverty.

Of course, this is hyperbole. The very existence of Brazil's vast natural resources - its strong commodities and mineral base - make it an inevitable participant in the international marketplace.

On the other hand, it is only Brazil's potential - its vast natural wealth, cheap labour, and huge domestic market - that keeps the international community interested in its future.

In the meantime, Brazil will continue to travel in reverse gear. Industry - hampered by government protectionism against vital foreign technology - is falling rapidly behind its competitors. And, if the trend continues, the profile of its still buoyant export sector will revert rapidly to the classic commodity and raw materials base that characterise lesser Third World nations.

For the political establishment in Brasilia, the country's underdevelopment is repeatedly attributed almost exclusively to the country's $113bn foreign debt. While this is by no means an insignificant factor, it also provides an excuse to avoid tackling the self-indulgence, job reservation, nepotism and corruption which have swollen the federal and state civil services by tens of thousands in the last two years.

Above all, a growing coalition is now demanding, Brazil must rein in the suffocating tyranny of state spending and controls.

"There is no room for more economic shocks," Senator Roberto Campos wrote recently. "The only shock left to us is Liberty."

Corfield back in computers

Sir Kenneth Corfield, former chairman of STC, the telecommunications and computer group, has returned to the computer industry. He is backing a small British computer company which plans to launch a pocket computer on the market in March.

"It is absolutely innovative and is really quite remarkable," says Corfield. He has taken a 10 per cent stake in the company, Distributed Information Processing, and has become its chairman.

It is Corfield's first direct involvement in the computer industry since his sudden departure from STC in August, 1985.

The new computer is IBM compatible, has a communication device and can be used to send telexes.

Corfield is most enthusiastic about the way in which DIP's founder and research director, Ian Cullimore, has solved the problem of providing a large memory for such a small computer. Instead of the normal disc, it uses smart cards the size of normal credit cards.

"It is a very interesting development," says Corfield, but adds that the number of computers to be launched on the market will depend on how much money he can raise in the post-crash venture capital market.

Corfield is also at the moment heading a Department of Trade and Industry committee which is considering whether the Ministry of Defence could spare some of its radio frequencies for commercial use. Its report will be completed about the same time as the launch of the new computer.

Watch this space

Britain's space buffs have been disappointed that they failed to persuade the Government to increase its interest in space technology. The debate was settled in resounding fashion by the UK's recent decision to stay on the sidelines in a series of ambitious West European projects to develop manned space vehicles by the end of the century.

Men and Matters

The rebuff has not, however, led the space community to give up its efforts to persuade anyone who will listen of the foolishness of this move, which will, so the enthusiasts argue, consign Britain to the status of a third-class power in a few decades.

Now, it appears the extraterrestrial lobby has a chance to put its views at a particularly high level. Prince Charles, who has become keenly interested in technological matters in recent years, has written to Roy Gibson, Britain's former top space official who resigned from his government position as a result of ministers' intransigence on the issue, asking him for a briefing on the policy debate.

Gibson told me yesterday he would be only too pleased to oblige and was arranging to see the Prince early in the New Year.

Sour grapes

Last week's arrival of Beaujolais Nouveau was not greeted with universal approbation - despite the decidedly novel prospect of a wine tasting mildly of bananas.

In Quebec, North American cradle of la Francophonie, of all places, the local liquor control board - la Societe des Alcools du Quebec - decided against handling the vintage in favour of importing an alternative vino novello from Italy.

As SAQ vice-president, Claude Marier, explains, the decision was made because of declining sales over the past two or three years and the failure of the Beaujolais producers to get permission from the French Government to release their wine ahead of the official date to facilitate delivery by sea rather than air.

This would have produced savings to the consumer of approximately C$3 ($1.30) a bottle and, presumably, would have helped to arrest or reverse the deteriorating sales.

Marier says that this year's Beaujolais would have sold in Quebec for a hefty C$13 (£5.55) a bottle, compared with just C$7.95 for the shipped-in Italian vino novello. This, by the way, has been selling extremely well, with 90 per cent of the 30,000 cases ordered sold in the first day.

The bout of sour grapes comes as a General Agreement on Tariffs and Trade panel is expected shortly to rule that Canadian provinces are guilty of discriminatory practices in the way they control the pricing, listing and distribution of wine, beer and liquor. The ruling will be in response to a complaint filed several years ago by the European Community.

Call money

Domestic telephone users in the outer fringes of Greater London are in for a surprise when they ask for a new edition of the four volume inner London telephone directories. British Telecom is now charging £8 for this hefty set for those householders who do not live in the London postal area.

For years under the old Post Office regime, these volumes were provided free to subscribers in the outer areas of Greater London and were replaced at regular intervals. Now, if you live in a place like Croydon and wish to ring somebody in inner London, either you have to pay for the directories or ring directory inquiries. The inquiry service is, of course, still free at the moment but there are dark hints that charges will be introduced for this, too.

No public announcement was made of the charge, which came into force in April and will affect several million subscribers. A BT spokesman says: "No announcement was necessary. We have 22 million subscribers nationally and only a small proportion of them live in London."

He said BT was not contractually obliged to provide the directories in outer London. The practice is to provide a free directory only for the local area. He argued that the old system had meant in effect that subscribers in places like Leicester and Derby, who received only their local directory, were subsidising those in outer London

At least one subscriber complained to Oftel. After some weeks, he was told the BT watchdog had investigated but that no action would be taken as BT was operating within the terms of its licence.

Food for thought

The battle between Britain and France to sell Canada a design for a nuclear submarine is hotting up with the arrival in Nova Scotia on a sales visit of a French Rubis-Amethyste class vessel. The event has been marked by a number of full-page advertisements in the Canadian national press.

The Rubis's main apparent rival for the lucrative contract is the larger Trafalgar class submarine made by Vickers Shipbuilding and Engineering of Barrow-in-Furness. The Canadian cabinet is expected to plump for either 12 Rubis or 10 Trafalgar class vessels at an overall projected cost of some C$8bn some time next spring.

While a clear favourite for the contract has yet to emerge, the verdict of one veteran Canadian defence writer, accorded an extensive guided tour of the Rubis in Halifax harbour, may perhaps give the marketing men at Vickers some food for thought.

If the standard of cuisine on board has anything to do with the final decision, he maintains, the French will win in a canter. His lunchtime entrecote was "a gourmet's delight," he reported, and the cheese board was "glorious."

Observer

Andrew Gowers looks at the prospects for a settlement in the Middle East

Keeping alive the Carter vision

Cementing the Camp David accord, 1977: Anwar Sadat, Jimmy Carter and Menachem Begin shake hands

FOR THE Middle East, obsessed as it is with history, 1987 has been a year full of poignant and all-too-pertinent anniversaries. Yet perhaps the most vivid political memories are evoked by an event that occurred 10 years ago this month: Egyptian President Anwar Sadat's astonishing trip to Jerusalem and his historic address to the Knesset on November 19, 1977.

With one bold gesture, the Egyptian leader ensured that the relationship between Israel and its Arab neighbours would never be the same again and, of course, paved the way for the eventual negotiation of a framework for peace between Sadat, the then Israeli Prime Minister Menachem Begin and US President Jimmy Carter.

The promise in the Camp David accords of a comprehensive settlement of the region's principal problems - such as the Palestinians' demand for self-determination - may seem as far from fulfilment as ever. But in a year in which there has been much talk, at least, of trying to revive the Middle East peace process, the agreements and their disappointing results hold significant lessons - not least for Mr Carter himself. "Knowing what I did then, I think it was the best we could do," says the now wiser ex-President.

Although he is in many respects a prophet without honour at home, Mr Carter's stock in the Middle East is surprisingly high these days. Last week in Atlanta, capital of his home state of Georgia, he presided over a gathering of diplomats, politicians and intellectuals from the region and from East and West which shed intriguing light on past mistakes and future prospects for finding common ground.

Mr Carter does not apologise for Camp David, or for the Israeli-Egyptian peace treaty which followed. It was, after all, the peak of his presidency and remains the only concrete evidence we have that Israel and its Arab neighbours can reach binding and constructive agreements - as he puts it, "a clear and undeniable signal that negotiations between Israel and her neighbours can be mutually advantageous." Effectively, whatever the wider pretensions of the treaty, Egypt did get back Sinai and Israel got the arguably more important reward of peace with its most powerful neighbour.

The treaty itself has weathered an extraordinary buffeting from such events as the death of Mr Sadat and the departure of Mr Begin, Israel's 1982 invasion of Lebanon and its bombing of targets in Iraq and Tunisia, and the dismal failure of talks on the Palestinian problem. In the last two weeks, Mr Sadat's separate peace with Israel has received a vindication - albeit belated and backhanded - from other Arab countries, with the decision of the Amman Arab summit to allow the resumption of diplomatic relations between individual states and Egypt.

Nor, says Mr Carter, should the recent deadlock on the Palestinian question be allowed to obscure the solemn commitment which Israel made in the Camp David accords (and subsequently stalled on) to resolve the problem "in all its aspects" - a pledge which might prove handy in any future peace efforts.

Yet the former President, who admits to having been surprised by Mr Sadat's audacious trip to Jerusalem, is prepared to concede that the separate peace may also have done a good deal to hamper the search for a more comprehensive settlement. The Egyptian President's move came at a time when the US and Soviet Union had just agreed to relaunch their joint peace efforts and it derailed these. It also infuriated Syria and alienated Jordan, neither of which was prepared to countenance the idea of separate treaties with Israel as envisaged in the Camp David framework.

Mr Carter expresses regret at what he calls his presumption in not having paid more attention to the concerns of Jordan, Syria and the Palestinians during his negotiations with Mr Sadat and Mr Begin. "In retrospect, I could have made certain that King Hussein was thoroughly familiar with the plans that we had in going to Camp David...I didn't do that." At the time, though, he indicates, these considerations were swept aside by Mr Sadat's desire to do "something dramatic and something that would cut through long, tedious negotiations," and by Mr Carter's anxiety to bring Israel to the bargaining table.

The viability of the Camp David accords was also undermined by their effective exclusion of the Soviet Union - which must have been especially galling for Moscow in view of its agreement to relaunch US-Soviet peace efforts in October 1977. The Soviets had no incentive to help the initiative succeed and, as a leading Soviet expert on the Middle East, Alexander Zotov, told last week's conference: "Progress towards peace is not possible if the Soviet Union is not involved." By the same token, the US commitment to push for a Middle East peace agreement has been mostly conspicuous by its absence in the Reagan years.

Many Israelis - and a fair number of Americans - profess to wonder why King Hussein cannot simply "do a Sadat" and make a separate peace. Israel is openly distrustful of the Soviet Union, which it accuses of having played a spoiling role in the 1970s.

Jordan, on the other hand, remains extremely wary of US attempts to lure it into direct negotiations with Israel - as demonstrated only last month, when King Hussein rejected an American suggestion that he and the Israeli and Syrian leaders should meet President Ronald Reagan and Mikhail Gorbachev at the forthcoming US-Soviet summit. The cautious King - who has never been in the position of the leader of a powerful nation like Egypt - needs to guard himself against suspicions that he, too, might be prepared to make a separate peace. With Palestinians forming the majority of his subjects, he also has to be scrupulous to avoid giving the impression of trying to usurp the role of the Palestine Liberation Organisation, which he and all Arab leaders have agreed is the Palestinians' sole legitimate representative. Mr Carter now has a deeper understanding of the constraints on the King. "Jordan will never negotiate bilaterally with Israel," he said last week.

In view of what Mr Carter now openly acknowledges to be the shortcomings of Israel's separate peace with Egypt, it seems clearer than ever to most people involved that the only way forward is an international peace conference involving states of the region and the five permanent members of the United Nations Security Council - a forum designed to bring Israel and her neighbours together for direct talks on such crucial issues as the Palestinian problem and the future of the territories Israel seized in 1967.

Indeed, perhaps the most useful thing about Mr Carter's gathering last week was that it reaffirmed the degree of international commitment to the conference idea, gratifying to the former President because he has worked so hard for it. Four of the UN five wholeheartedly support it, while the fifth, the US, says it backs any process which will lead to direct negotiations.

The Soviet Union is showing unprecedented flexibility over the structure of and participation in a conference, and there are hopes that the current mood of superpower co-operation will help. Jordan has, of course, long been actively touting the idea, as has Shimon Peres, the Israeli Foreign Minister; even Syria's President Hafez al-Assad has said he will attend. The obstacle remains Yitzhak Shamir, the Israeli Prime Minister, and the right-wing Likud half of the country's coalition Government.

The principal problem, says Mr Carter, is one of trust. Mr Shamir - who, be it remembered, voted against the Camp David accords - fears that a conference is a trap designed to force Israel into territorial concessions which he vehemently opposes. Mr Carter's answer is that the Israelis need assurances that the conference would have no right to impose solutions on the negotiators, or to veto settlements once reached - that, in effect, it is merely a device for bringing the parties together just as Mr Carter brought Mr Begin and Mr Sadat together at Camp David.

With such guarantees, say the inveterate optimists, a conference ought to be possible some time after next autumn's elections in Israel and the US. Nobody seems to believe anything much can be done before then.

Even then, it may still sound like wishful thinking, given the vast differences between the Arab and Israeli sides on issues of substance as distinct from procedure, and especially given Mr Shamir's flat refusal to consider any negotiation which would exchange Israeli-occupied land in the West Bank and Gaza Strip for peace, or anything beyond a very limited concept of Palestinian autonomy.

But then, Mr Carter would argue, wishful thinking was exactly how the idea of peace between Israel and Egypt seemed before November 1977. With hindsight, the pity is that more was not made by all parties of the chance offered by a President who put the search for solutions in the Middle East at the top of his political agenda.

Privatising electricity: a view from the CEGB

How best to give power to the people

By John Baker

THE Central Electricity Generating Board neither opposes privatisation, nor fears the challenge of competition. However, there are times when the public debate about the future structure of the electricity supply industry reminds me of the old crack about economists: that the number of solutions you get rises exponentially with the number of economists you consult. There is no shortage of views expressed on privatisation; many of them are hostile to the CEGB.

We sometimes feel that we are part of a jigsaw which our critics are trying to put together in different ways. But generating and transmitting electricity is not a game. It involves real people, real power stations, real transmission lines in a power system which has to work well or the lights will go out. We know, of course, that the Government recognises these realities from the full and constructive discussions between us.

A wide range of proposals for a restructured power system under privatisation has been put forward and there is simply no room for all these shades of opinion to be right. For example, it is not possible to reconcile the argument that the consumer will benefit most if the existing integrated power system is dismembered - into, say, 10 competing generating companies and an independently controlled grid - with our experience which suggests that such a move would be impractical and cost the customer dear.

In the bulk supply of electricity, which is the CEGB's business, the consumers' interest can be taken to be reliability of supply and price. On these matters the CEGB's record is impressive. The system is among the most secure in the world and electricity prices to households and industry have been reduced through improvements in efficiency and productivity (including substantial manpower reductions) by 16 per cent in real terms in the last five years.

Consumers in England and Wales generally pay less for electricity than those in most of Europe, Japan and the US. This will still be the case when price increases arising from the Government's new financial targets come into effect.

The CEGB has had 30 years in which to develop the integrated grid and transmission system to its present degree of sophistication. In a recent report, the Monopolies and Mergers Commission acknowledged the powerful economic and technical case for an integrated system.

Our critics seem to assume that the CEGB is arguing for the preservation of the status quo. This is not true. We can see ways to exploit the opportunities of privatisation for the benefit of consumers. Competitive pressures are good for management. We have been working with several groups to establish whether and on what terms they might supply power to the grid. The Financial Times reported on Monday that we have decided to explore the option of private sector participation in the provision and financing of the £600m flue gas desulphurisation programme. This is an indication that the CEGB does not want to retain the construction and operation of all major projects.

Construction projects and the desulphurisation programme create an opportunity for competition which has been absent during the many years of static electricity demand. Our critics further suggest that we would abuse our ownership of the grid to deny fair access to potential competitors. That is unrealistic. The arguments are not about technical possibilities but about tariffs and prices, and that can be dealt with by regulation.

It has been suggested, by a contributor to the FT's series of articles on privatisation, that our objection to the separation of the national grid and generation arises because no organisation likes to have its sphere of influence diminished.

This line of argument would carry more conviction if the complete separation of transmission and generation had been attempted or achieved in any other country. It has not. Indeed, the whole trend internationally is towards integration and collaboration in power systems, not towards fragmentation. In the US, for example, where the electricity industry has developed into a fragmented - but in no real sense a competitive - structure, vertical integration of generation and transmission is the norm and the trend is towards power pools the size of the CEGB.

Experience and logic tell us that the benefits that have flowed from integration over the last 30 years must be lost if integration is reversed. We employ these benefits in terms of tight margins of spare generating capacity (among the lowest in the industrial countries), integrated plant and transmission maintenance scheduling, least-cost planning of the entire system in real time and unified control in emergencies - whether those of God, as in the hurricane of October 16, or man in the form of the miners' strike of 1984/85.

In the US it is the search for just these benefits, from systems not designed to achieve them, that is driving utilities to co-operate and submerge individual interests for the collective good. They are setting out on paths we first explored 50 years ago. Our critics would have us pass them travelling in the opposite direction.

Even so, that would be justifiable if the result were a better product. But it would not be. To my knowledge, nobody has suggested that supplies would be more secure as a result of fragmentation. On the contrary, separating the grid from the bulk of the power stations in an untried system would be less secure, for there is a dynamic interaction between generation and transmission which, if got wrong, leads to voltage collapse and blackouts.

The costs would also be justified if they were offset by gains in efficiency. But, as Professor Colin Robinson and Mr Allen Sykes pointed out in their recent Centre for Policy Studies paper, the largest savings to be made from privatisation lie in cutting the CEGB's fuel bill, which accounts for 50 per cent of costs, and from a more competitive approach to the construction of power stations. These savings could be achieved whether or not the CEGB was fragmented. Through privatisation, the management is poised to grasp these savings - risk taking with the whole system is simply unnecessary.

If changes benefit the customer, then we welcome them. But many of our critics seem to start from the assertion that the CEGB does a bad job. Perhaps the debate would be raised to a more productive level if the critics joined us in trying to address the real possibilities for applying competition, in a way that will bring rewards without major risks.

The author is corporate managing director of the CEGB.

Letters to the Editor

Steel customers dislike clubs

From Mr James Campbell.

Sir, It is to be hoped that the announcement (November 12) that the British Steel Corporation will be privatised before the next general election will be coupled with the Government's recently declared intention to tackle monopolies, cartels and like conspiracies.

Unless this is done, it is difficult to see how British Steel will be able to publish a meaningful privatisation prospectus. It has for years operated within the cartel, legalised by the Treaties of Rome and Paris, to the detriment of its customers. It is surely unthinkable that this market manipulation will be permitted in the future, and unless it is stopped now, historic figures in any prospectus will be meaningless in relation to post-privatisation trading.

Stainless steel is a particular case. Although this quality is not covered by either of the above Treaties, the market is controlled through quotas and massive price increases are thus being imposed upon industries which depend upon stainless steel as a raw material. The consequences are grave for the customers of British Steel who, unlike their supplier, have to operate in open international competition.

The stainless steel market is controlled through the Sendzimir Club of which British Steel is a prominent member. All the EC producers participate, as do companies in Sweden and Finland. According to British Steel this "Club" is "a sub-group of the European Fine Steels Club, which itself is a sub-group of Eurofer, the European Steel Producers Club".

Consumers feel that there is no mystery why all these "Clubs" exist, and that there is a clear case for detailed investigation by the Competition Directorate in Brussels. Perhaps British Steel should take the initiative, as clearance would both reassure its customers and add credibility to its eventual prospectus.

James Campbell,
Chairman, G.F.E. Burtlett & Son Ltd,
Maylands Ave,
Hemel Hempstead, Herts.

It can get hot in the kitchen

From the Managing Director of Cyril Bernstein Limited.

Sir, As a leading independent manufacturer of flat pack kitchens in the UK, I think your articles on German kitchens (November 19 and 20), which reported on the inquiry carried out by Ms Hilary Steedman of the National Institute of Social and Economic Research, reflect that inquiry's totally unbalanced and biased view.

My company was invited (unfortunately, it now turns out) to participate in the inquiry, and to assist subsequently in a television programme based on this research. In my opinion the report of the National Institute was highly selective and misleading, selectively using statistics to support the argument - which the National Institute wishes to present - that UK education is inferior to German education. UK kitchen furniture production is most certainly not inferior to German production, and should not have been used as an example for this purpose.

It is fair to say that the British consumer has vastly different tastes from his or her German counterpart. It is also fair to say that the public funds used to produce this report have been as misplaced as the report's findings.

Two major UK companies in our industry, Hygena and George Moore, have been sold recently, the one for just over £200m, the other for £80m. Both return profit figures much higher than many German companies. A major German company, Poggenpohl, whose name is known as the producer of the best quality kitchens that money can buy, was sold earlier this year for £10m because of financial difficulties encountered over the last few years.

I would add that in the television programme, which was titled "Educating Britain," my company was compared to a specific German company. The true facts of the comparison are that while both of us are producing at about the same level of turnover, the German company employs twice as many people as we do; our output is therefore nearly twice as much per employee as theirs. It is hard to believe the National Institute's statement that West German productivity in the furniture industry is 66 per cent higher than in the UK. (Incidentally our return on capital per employee is also twice that of the German company, and our profit per employee is 2½ times theirs.)

I think the comparisons are odious, inaccurate, and show an extremely false position of the successful British kitchen industry.

B.A. Bernstein,
PO Box 33,
Manchester Old Road,
Middleton, Manchester

If roads were to take their toll

From Mr R. Hardy.

Sir, David Starkie's economic analysis and justification for tolling new urban roads (November 18) is impeccable. However, nasty practicalities tend to get in the way.

To buy sufficient urban land for a mere five miles of road and to build the road on it would cost not less than £150m. Working on the basis of 200 working days, the benefits presented by such a road would need to be such as to attract 25,000 drivers each day, paying £2 each for the privilege - *just to pay the interest.* Maintenance, administration and toll collection costs would add significantly to the toll - ask the Humber Bridge Authority.

A further difficulty is that building any road tends to be somewhat unpopular, and in urban areas so much so that nobody has dared to try in recent years. Even if successful, it would take between 15 and 20 years, during which time a further £200m in interest charges would have accrued - without any off-setting income. And all this for just five miles of road! Who's going to do it?

R. Hardy,
Lynton,
Dummer, Hampshire

The EC may have to think about amending the regulation on merger control

From Professor Valentine Korah

Sir, On November 18 and 19 you reported that the Court of Justice of the European Communities, in its judgment last Tuesday in *Phillip Morris*, has confirmed the power of the Commission to control mergers under Article 85 of the EC Treaty.

Advocate General Mancini clearly suggested in the same case that the Court would so hold. The Court said that the acquisition of a minority shareholding does not necessarily restrict competition, but may do so:

"38 ... where, by the acquisition of a shareholding or through subsidiary clauses in the agreement, the investing company obtains legal or *de facto* control of the commercial conduct of the other company or where the agreement provides for commercial co-operation between the companies or creates a structure likely to be used for such co-operation."

Where a majority shareholding is acquired, legal control will normally be gained, so this passage may well indicate that Article 85 applies also to a full merger with a competitor in a concentrated market, protected by high entry barriers.

The question will arise whether it is only the agreement between the companies that is void under Article 85(2), or whether the subsequent transfer of the shares is also invalid. That would be most unfortunate. Divestiture may, or may not, be a sensible remedy, but nullity declared, possibly many years later, would leave a "wreck on the sea of commerce" as serious as the aftermath of the dissolution of the Russian banks after 1917.

If the transfer itself is not void, an exemption by the Commission even for a matter of months may suffice. Unfortunately, however, it is able to manage few - perhaps three to six a year. Those negotiating friendly mergers may well notify many of them to the Commission, but have to take the risk of consummating the merger without obtaining an exemption. The lack of provisional validity on notification will now be more serious than ever.

If it is the agreement between the firms that is subject to Article 85, most hostile takeovers would not be subject to Article 85. This may be defended on policy as well as legal grounds, as it is important that the market for corporate control should not be unduly fettered. The fear of a takeover is an important incentive to good management. Such a merger by unilateral action could be attacked under Article 86, but with less risk of nullity resulting. Where an institution holds shares in Company A as an investment, and sells them to a competitor of Company A, however, there may be an agreement between firms, contrary to Article 85(1) - the institution and the purchaser.

The Commission's press release states that the Court has decided that Article 85 applies to buying the shares in a competing firm and is optimistic when saying that the Court has defined the extent of the Commissions's powers. In my view much remains to be clarified.

To reduce questions of invalidity, the Commission may have to think about amending the regulation on merger control it proposed to the Council and which is to be debated this month, so as to grant a block exemption under Article 85(3) to mergers where markets are not concentrated or entry barriers are low. The current proposal was made when it was assumed that Article 85 did not apply. Such an amendment might encourage member states to adopt the regulation.

The Commission has gained considerable discretionary power, since the Community Court confirmed that its review of the complex economic appraisal of the agreement in its economic context made by the Commission is limited. It has no jurisdiction to rehear the matter on the merits. National courts will also have a similarly wide discretion in the application of Article 85(1) and (2).

Valentine Korah
Faculty of Laws
University College London

FINANCIAL TIMES

Wednesday 25 November 1987

Academie puts penalty on sports a la franglais

THE VENERABLE Academie Francaise, custodian of the French language, has dealt another blow to franglais. It has decided that the growing use of English in French sport has reached an obscene level of excess, **Paul Betts writes from Paris.**

French television and radio commentators have thus been told to use French words instead of English ones, a task many believe is virtually impossible.

At the risk of getting censored by their networks, they will no longer be able to rattle off in their excited commentaries words like goal, penalty, dribbling, match, shoot or le hat-trick(three goals by the same striker).

Instead, they will have to refer to the penalty area as the *surface de reparation*, to a goal as a *but*, and stop talking about *un match* when in French it is *une partie*.

The crackdown on the use of franglais in sport was solemnly announced on French television by Mr Edgar Faure, veteran of the Academie Francaise and former French Prime Minister, who has become one of the most active crusaders to protect the French language from foreign, and especially Anglo-Saxon, influences.

Mr Faure admitted that in some cases it would probably be impossible to find a French word to replace a vulgar English one, but, even then, the English word could be transformed into a French one by giving it a special Gallic construction.

Thus dribbling must now become *dribbler* in the best tradition of the French first conjugation, regular verb category.

Mr Faure, who is also actively engaged preparing the bicentennial celebrations of the French Revolution in 1989, also suggested yesterday that the word sponsoring could be perfectly well replaced by a new French variant, *le sponsorat*.

But even Mr Faure admits defeat in some areas. He told a gripped French television audience that it was quite normal that the phrase water closet had entered the French language since this domestic convenience was unknown to French households until it was imported from perfidious Albion.

However, for sports fans, commentators and professionals, the latest initiative to restrict the use of franglais in the sporting world is likely to prove an uphill struggle, just as an earlier effort to replace the dominant Anglo-Saxon business and high-tech jargon with French equivalents has failed.

In a country which has always enjoyed a profound love-hate relationship with the Anglo-Saxon world and continues to be fascinated by everything American and British, it has been difficult to stop the growing inroads of franglais in the language.

Just as it is difficult to ask a banker to describe a leveraged management buy-out as a *reprise d'entreprise par ses salariés*, it will be equally hard to persuade France's hyped-up sports commentators to describe Maradonna *entrais de dribbler dans la surface de reparation avant de tirer au but*.

Stewart Dalby reports on liberalisation plans of an impoverished country

Laos relaxes grip on textbook Marxism

TWO basic theories are held about Laos and its prospects by Western diplomats and employees in the capital, Vientiane, and neighbouring Bangkok.

The first has it that Laos is hopelessly locked in a poverty trap, is badly run, dependent on foreign aid handouts and likely to remain so.

The second view is that, if the political system were to show some flexibility and the ageing Communist leaders continued to follow the mild reformist path of the past couple of years, then Laos could become largely self-sufficient and a comfortably-off country, if not a rich one.

Landlocked, largely mountainous Laos, which is about the size of Italy but has only 3.5m people, is one of the poorest countries in the world, with a per capita income of about $135.

Last year it barely managed exports of $58.5m, over half of which came from one source - the sale of electricity to Thailand from a hydroelectric plant on the Nam Ngong river. The deficit on current account is estimated to be $104m, which appears to have been covered by unspecified capital inflows put at $111m, including "errors and omissions".

All figures are highly tentative, culled from a variety of sources including the World Bank and the United Nations Development Programme.

One of the "omissions" is likely to be the sale of drugs. Both Thai officials and US narcotics investigators in Bangkok have accused some sectors of the Lao Government and armed forces of taking part in a renewed drugs trade.

Opium production in Laos - always a minor producer compared with other countries in South-east Asia's Golden Triangle such as Burma - has been put at 100 tonnes in the past year. Laos denies any trafficking in drugs. However, marijuana-growing seems to have undergone a revival in the fertile Vientiane plain.

If one leaves income from drugs out of the reckoning, Laos would seem to be getting about $100m in foreign aid and loans. Of this, probably $40m comes from the non-Communist bloc, including the World Bank, the Asian Development Bank, Australia, France and Japan.

But is it possible to foresee a day when Laos will be able to dispense with this aid?

When the Communist Pathet Lao entered the Government in 1975 and consolidated its power the following year, they inherited a devastated economy.

The lowland Lao (who make up about half the population, with hill tribes making up the rest) lived in the cities like Vientiane and Savvankhet along the Mekong river. The population was swollen by at least one million refugees from the war in the mountains. The US supplied over 50 per cent of the revenues of the Royal Lao Government and paid the armed forces separately, including the air force which intensively bombed Communist-held areas to the north of Vientiane.

With the American withdrawal from Indo-China in 1975, the economy collapsed, sending tens of thousands of refugees across the Mekong river into Thailand.

The men who took over Laos in 1975 - and many of them are still there - were not fanatics like their counterparts in neighbouring Cambodia, the Khmer Rouge. There was no wholesale forced resettlement and little evidence of mass executions or religious persecutions. In fact, a number of the ruling Politburo are said to be practising Buddhists.

There was hardship on a large scale, certainly. There were re-education camps - last year, Amnesty International said some 2,000 people were still in them.

Kaysone Phomvihane: Prime Minister

The hardline leaders, like Mr Kaysone Phomvihane, the general secretary of the Politburo and Prime Minister, and Mr Phoumi Vongvichit, the acting President and number four in the Politburo, had been fighting in the hills a long time and had virtually no experience of government. Orthodox Marxists, they took a number of textbook decisions which in retrospect seemed inappropriate.

One was a ban on all private trade. The central market in Vientiane was closed and all buying and selling was done through the state. Another was that all rice, the staple diet, was to be produced by co-operatives, and a third was that all production decisions had to be referred upwards and made by centralised bureaucrats, rather than by what are now called "enterprise managers".

Everyone I spoke to said that life was very hard until about five years ago. There were shortages of everything, including rice. Vietnam, the dominant power in Indochina with 30,000 troops in Laos, and probably the biggest aid donor, was also a rice donor despite its own serious shortages.

Tens of thousands more refugees fled across the border. Many of them, doctors, teachers and other professionals, were people the country could ill afford to lose.

Gradually, as in neighbouring Vietnam, Marxist orthodoxy has been relaxed. Market trading was allowed by 1980. Today, the central market is crammed with food and basic necessities, if not luxuries, and traders are allowed to cross into Thailand on buying missions. Membership of co-operatives also became voluntary in 1980. Last year, with production of 1.5m tonnes, Laos became self-sufficient in rice.

The liberalisation is likely to go further. Eight economic enterprises were allowed to experiment with various reforms in 1986. Managers were given decision-making powers; enterprises had to cover their costs; piece-work and bonuses were allowed.

Discussion of the second five-year plan (1986-90) by the Central Committee included talk of extending the experiment. Several joint ventures making small industrial products are to be allowed to operate on a commercial basis.

The Japanese are reportedly anxious to exploit an estimated one billion tonnes of high-grade iron ore (60 to 70 per cent) in Xieng Khoung province.

A great deal needs to be done if Laos is to prise itself out of the poverty trap, particularly in opening up communications. But the Lao are showing every sign of welcoming more development aid. The Americans have lifted their ban on aid to Laos. If the authorities can overcome their nervousness about security, they might develop a lucrative tourist industry.

It is even possible to envisage the day when the country, with no population problems and enough water and land to feed itself, might become self-sufficient.

THE LEX COLUMN

Europe makes a friendly gesture

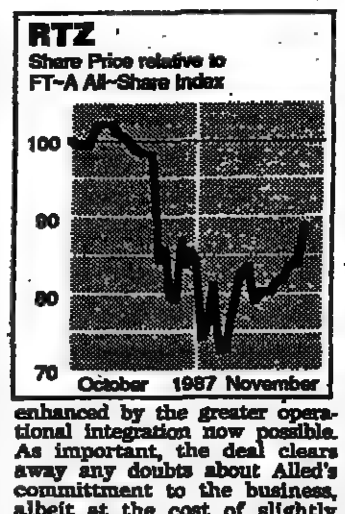
Just as the financial community appeared to have given up hope of an early co-ordinated cut in interest rates, the West Germans, French and Dutch stepped forward and trimmed a quarter point off their short-term interest rates yesterday, giving the dollar and share markets a useful boost. The move is at first sight surprising since it is hard to see how the Europeans can have been persuaded into lowering their interest rates by last week's US deficit reduction charade. Surely, they would have wanted to see more concrete progress before agreeing to cut their rates? Part of the explanation may have had to do with maintaining stability inside the European Monetary System. The French, having raised their rates a few weeks ago, were anxious to cut them again, and yesterday followed the West Germans in doing so. However, there are several ways of interpreting the latter's action.

At the most charitable level, the West German move can be seen as another goodwill gesture to the US Administration with the implication that it could be followed by an eventual discount rate cut provided that the US delivers a sensible budget package. However, a more common interpretation is that the West Germans have become so gloomy about the prospects for world growth next year that they are being pushed into taking actions irrespective of what the US decides to do.

Allied-Lyons

Having dealt with the Hiram Walker minority earlier than expected, Allied Lyons may feel confident enough to start phasing out its defensive corporate advertising campaign. But the final elimination of bid premium from the share price (for the time being at least) should be compensated by the relief that Allied no longer needs a rights issue to buy that anomalous 49 per cent. The complex convertible pref genuinely appears to reconcile the ambitions of the two parties. Allied can issue deferred equity without earnings dilution and Olympia & York enjoys enhanced yield (with tax advantages) despite the limitations on conversion. Valuing the pref at its conversion price, and without taking account of discounted cash-flow, the exit p/e is about 14.

That bodes well for the future earnings potential of Hiram Walker, which may also be enhanced by the greater operational integration now possible. As important, the deal clears away any doubts about Allied's commitment to the business, albeit at the cost of slightly steeper gearing. But this display of confidence leaves Allied somewhat denuded. For the first time in several years it will be judged on fundamentals at a time when UK investors in the international liquor market still seem to prefer Grand Metropolitan. At least the Hiram exposure to the US is only just over 50 per cent. The market was pretty indifferent yesterday but it seems almost certain that the unusual floating rate permanent pref - called up in the event of non-conversion after seven years - will remain academic.



RTZ

RTZ's growth has only occasionally been marked by the acquisition of publicly quoted companies and contested takeover bids are even rarer. So its £205m bid for MK Electric, and its dawn raid on the company's shares, may well mark the start of a more aggressive management style. The price it is paying - a one third premium over MK Electric's closing price on Monday and an exit multiple of 17 times historic earnings - looks reasonable but not excessive. RTZ has always stressed that it is a long term manager of industrial assets, so if it has to pay a little extra for a company whose performance it feels it can improve, so be it. MK Electric has had a chequered career and it lacks the sort of financial resources which would enable it to expand in a big way in major markets, such as the US. RTZ would make a better owner than some of the other predators that have cast their eye over its assets, provided it is prepared to bend a little on the price.

BAA

From BAA's first results since privatisation, one would never guess that private ownership was meant to make companies both more open and more efficient. Underneath a strong increase in profits lurk two disheartening comparisons: a marked fall in revenue growth per passenger, and a surprisingly large increase in costs. While there might be perfectly good explanations for both, BAA was reluctant yesterday to provide any, and flatly refused to give analysts the turnover breakdowns they need to get their sums right. However yesterday's 10 per cent relative fall in the share price reflects more than pique at the presentation of the results. Everyone knows that BAA should do better than the more volatile British Airways in the post Black Monday world. With only 30 per cent of its business dependent on North Atlantic traffic, a fall in the value of the dollar may reduce growth this year but is most unlikely to reverse it. However over the last five weeks, the performance of the two companies has greatly overstated their relative prospects. Anyone who takes a relaxed enough view of air traffic volumes to think that BAA looks correctly valued on a p/e of 12 should surely think asbout reinstating British Airways, which has sunk to a multiple of less than 6.

Tokyo listing

The principle of one share one vote is turning out to be more strongly rooted on the Tokyo stock market than many a Western finance director might have expected. While the New York Stock Exchange cheerfully abandoned the principle once it became obvious it was loosing foreign business to Nasdaq, in Toyko the tide may be moving the other way.

When the first foreign companies came to the market a couple of years ago, Tokyo welcomed British Telecom, complete with golden share, and other companies seeking quotations for both A and B shares. It seems that with the queue of foreign hopefuls with unorthordox share structures now stretching around the block, Toyko does not want to set any more casual precendents. It is just as well that Reuters, which badly wants a listing for its class B shares, is prepared for a long wait while officials examine their consciences.

Canadian Ford deal in S Africa

By Anthony Robinson in Johannesburg

FORD of Canada has disposed of its 42 per cent stake in the South African motor company, Samcor, after 10 months of complex negotiations with black trade unions. This leaves 24 per cent of the equity in the hands of a worker-controlled trust.

In addition, the Canadian motor company has agreed to donate $2m each to two new community trusts in the Pretoria and Port Elizabeth areas.

Ford has thus joined General Motors - which disinvested last year - and the Japanese car companies by changing the basis of its involvement in South Africa to a non-equity franchising arrangement.

Ford has shown itself highly sensitive to black criticism of earlier disinvestments by other companies and also to fears that if the company merely ended its involvement in South Africa, it would cause massive hardship and unemployment in the Pretoria township of Mamelodi, near the Pretoria assembly plant.

Anglo American Corporation, the South African coal mining company, and its Amic subsidiary now hold the remaining 76 per cent equity in Samcor.

Ford, which contributed Laser, Meteor and Sierra cars and light vans to the Samcor range, will continue to supply vehicles and components as well as management and technical assistance, and it will also allow use of the Ford trade mark.

The employee trust will be administered by trustees elected by hourly-paid and salaried employees.

US third-quarter growth up but trade deficit widens

BY LIONEL BARBER IN WASHINGTON

THE US economy grew a robust 4.1 per cent in the third quarter, according to revised Commerce Department figures yesterday. Earlier the department had estimated third quarter gross national product (GNP) growth at 3.7 per cent.

But the US trade deficit, measured on the accurate balance-of-payments basis, widened in the quarter to a seasonally adjusted $39.83bn, the highest on record, the department said.

The revised third quarter figures come in the wake of last Friday's White House - Congress deal to cut the US Federal budget deficit by $76bn over the next two years.

Separately Mr Paul Volcker, the former chairman of the Federal Reserve, the US central bank, said in a speech on Monday night that "the jury is still out on the budget package." He added: "We have run out of steam, in my judgment, in keeping the economy going on the basis of high consumption and growing foreign trade deficits and budget deficits."

Mr Volcker, who has avoided a high profile since he stepped down as Fed chairman last August, said at the University of Massachusetts that the stock market crash last month might have been a blessing in disguise.

He said it might have forced policy-makers to focus on long-range economic problems such as the US trade and budget deficits. "In some sense, the stock markets developments in themselves may be warning people, constructively I hope, and increasing our chances of of wending our way forward without recession or inflation."

Yesterday's conflicting economic figures appeared to underline Mr Volcker's message since they showed an economy growing strongly, without strong inflationary pressures, but hampered by structural imbalances highlighted by the record trade and budget deficits.

The revised GNP growth revealed strength in exports and business investment. It puts economic growth this year at a healthy annual rate of 3.6 per cent.

Some analysts said that the encouraging 8.6 per cent export growth, measured on a current dollar basis, could dent the fourth quarter merchandise trade deficit which has proved obstinately large

UK drinks group expands in Canada

BY LISA WOOD IN LONDON

ALLIED LYONS, UK drinks and food group, which owns 51 per cent of Hiram Walker, the Canadian drinks business, is to buy the remaining share from GW Utilities.

The deal is worth £572m ($1.02bn), comprising £202m cash and £370m in preference convertible shares.

GW Utilities, 88 per cent owned by Olympia & York, the Canadian property and resource company, will have a 10 per cent stake in Allied Lyons when the shares are converted.

The move follows Allied Lyons' strategy to be a major international drinks business.

Hiram Walker brands include Tia Maria, Courvoisier and Ballantines whisky.

Allied Lyons said yesterday that the benefits from the joint development of Hiram Walker and its Allied Vintners drinks business were already being realised.

The programme of full integration would now be accelerated.

GW Utilities said it saw the benefit in trading a minority interest in a distilled spirits company for a stake in the much larger and diversified business of Allied Lyons.

Hiram Walker brands have strong exposure in Canada and the US.

Allied's own wine and spirits sales are concentrated in the UK and Europe.

Allied Lyons tried to buy Hiram Walker's spirits business early last year. The group was then fighting a takeover bid from Elders IXL and some City of London analysts saw this as a poison pill tactic.

However, Hiram Walker was taken over by Gulf Canada, a subsidiary of Olympia & York, which immediately began legal proceedings to block the acquisition.

Lengthy litigation was resolved with Allied Lyons taking a controlling 51 per cent in Hiram Walker late last year.

Irish ready to approve extradition

By Our Belfast Correspondent

THE REPUBLIC of Ireland is almost certain to introduce new extradition arrangements with the United Kingdom as planned next week.

Mr Charles Haughey, the Irish Prime Minister and leader of the ruling Fianna Fail party, allayed the reservations of a number of his party's backbenchers

It is understood that amendments to the existing extradition laws were agreed by Mr Haughey's Cabinet earlier in the day, and the changes are expected to be voted on by the Republic's Parliament (the Dail) later this week.

The safeguards are being introduced following widespread opposition within the Fianna Fail party to the implementation of the 1986 Extradition Bill.

It was widely felt that the Bill, due to be implemented on December 1, would be postponed because of the perceived failure of the British Government to introduce radical court reforms

However, following the IRA's Enniskillen outrage, many opponents of the new extradition legislation in the Republic dropped their qualms.

The amendments follow meetings between the British and Irish Attorney Generals. It is understood that they include clauses whereby the Republic can insist on the British Attorney General certifying that a person against whom an extradition warrant is issued has a case to answer.

It is also thought that the Republic's top law officer will have the right to examine the evidence in extradition cases.

World Weather

Lawson calls on US 'to be ready'

Continued from Page 1

long as it persists. That may well not mean higher interest rates now, but it does imply the readiness to act if and when the need arises," Mr Lawson said.

For their part, Japan and West Germany would have to pay more attention to preserving interest rate differentials in setting the level of borrowing costs in their countries. The Chancellor said he welcomed yesterday's cut in the Bundesbank's interest rates, but made clear that West Germany would face pressure to do more to stimulate its economy at any G7 meeting.

According to one senior European monetary official no date had yet been fixed for a meeting even of deputies of the group.

There are also serious doubts, however, over the US attitude to the dollar, a senior European central banker said. The message from Washington appeared to be that the US would be happy to see the dollar drift lower.

During a press conference after his speech, Mr Lawson brushed off suggestions that his commitment to exchange rate stability was not shared by Mrs Margaret Thatcher, the Prime Minister.

In an interview with the FT earlier this week, Mrs Thatcher made clear that the Government was not pledged to defending any particular rate for the pound's value. Her comments were seen in Whitehall as undercutting the Chancellor's attempts to establish a firm target range for sterling against the D-Mark.

Yesterday, however, Mr Lawson echoed a hastily prepared Treasury briefing paper, drawn up in an attempt to reconcile their views. Mrs Thatcher, he said, had been referring to the flexibility that Britain retained by being outside the European Monetary System.

FINANCIAL TIMES
Wednesday November 25 1987

RTZ unveils £206m bid for UK electrical group

BY DAVID WALLER IN LONDON

RTZ, the mining, energy and industrial conglomerate formerly known as Rio Tinto-Zinc, yesterday launched a cash-only bid for MK Electrics Group, valuing the electrical accessories and doorbell manufacturer at £206.5m ($351m).

RTZ urged that MK - the largest supplier of electrical wiring devices, plastic conduit and trunking to the UK building and construction industry - should agree to the bid on the grounds of what it said was the generosity of its offer and the synergy between MK and Pillar, the RTZ subsidiary which also serves the construction industry.

The offer provoked no immediate response from MK, whose management was last night locked in talks with Kleinwort Benson, its financial advisers.

Providing further evidence that UK companies believe the stock market to have stabilised after five weeks of turmoil, the offer was announced only after two firms of stockbrokers conducted a dawn raid on MK's shares.

As the market opened, they moved swiftly to buy up MK's shares at the offer price of 550p, 33 per cent above Monday's close. By mid-morning, they had acquired 15 per cent of MK's shares on RTZ's behalf and by the end of the day, spoke for 22 per cent of the company's equity.

Although best known for its mining activities, the most important source of RTZ's profits is its industrial division, which generated some 60 per cent of the group's attributable profits of £245m in 1986. In its last annual report, RTZ highlighted its desire to increase the size of its business in this sector by making selective acquisitions.

With sales of more than £1bn, divided equally between the UK and North America, Pillar generates a quarter of the company's total profits. It makes and sells a range of products supplied to the building trade, including Everest Double Glazing and Catnic steel lintels.

RTZ said MK would complement Pillar's existing activities and diversification overseas would be accelerated with access to RTZ's resources.

MK posted a lacklustre profits record over the last four years as it struggled to reduce its dependence on Middle East markets and found it difficult to increase its sizeable share in UK markets.

However, analysts expect an up-turn in the present year and predict pre-tax profits of £22.5m, against £19.6m last year.

MK's shares closed at 555p last night, 5p above RTZ's offer and 141p above Monday's close - but still below the 572p peak achieved before the market crash.

Shares in RTZ - which intends to finance the acquisition out of its own resources - gained 28 to 338p.

First Chicago to buy bank for $136m

By Deborah Hargreaves in New York

FIRST CHICAGO, parent company of First National Bank of Chicago, has signed a letter of intent to acquire Gary-Wheaton for $136.4m of newly issued common stock.

Gary-Wheaton, a bank holding company which includes four suburban branches in Chicago's DuPage County, has assets of $791m.

Gary-Wheaton will strengthen First Chicago's suburban retail base in the western suburbs of Chicago and in DuPage County, which the company says is one of the fastest growing counties in the US.

During the last year, First Chicago has made a strategic thrust into the Chicago suburbs starting with its acquisition of First United - a suburban bank holding company

Illinois banking laws allow a maximum of five branches per central bank and Chicago banks have traditionally expanded by acquisition.

Mr Richard Thomas, First Chicago president, pointed out that the acquisition of Gary-Wheaton gave the company a strong showing in most of the Chicago western suburbs, citing the North Shore as another gap to be filled.

The deal involved a share exchange whereby Gary-Wheaton stockholders would receive a number of First Chicago shares equal to $80 divided by the average closing price of the company's stock in a 20-day period before the closing of the deal.

The agreement involved a right to terminate the transaction if the closing price during that period was not between $26 and $34.

First Chicago's share price rose $⅛ yesterday to $21¼.

Pritzers take lead in battle for Pan Am

By Anatole Kaletsky in New York

TRADE UNION-LED efforts to remove the management of Pan American World Airways appear to be intensifying, with the Pritzker family of Chicago emerging as leading candidates for majority ownership and control of Pan Am.

Representatives of the Pan Am labour coalition are said to be in active negotiations with Mr Jay Pritzker, the chairman of Braniff Airways, over a deal which would give employees a 20 per cent share in the restructured airline in exchange for pay concessions worth about $200m.

The Pritzkers would probably take control of the airline by distributing shares in a new company to Pan Am's present stockholders. They also have to inject at least $200m in cash, to put Pan Am back on its feet.

Santa Fe 'offered $1bn' for rail line

BY JAMES BUCHAN IN NEW YORK

SANTA FE Southern Pacific, the large US transport and resources group which has been ordered to dispose of one of its railroads, said it had received offers of more than $900m for Southern Pacific, the 13,000-mile rail line extending from St Louis to Oregon.

The group, which acquired the Southern Pacific in 1983 only to run into anti-trust problems, said it had narrowed the bidders for the line from seven to five by the deadline on Monday. The lowest bid had risen from $750m to $900m, while the highest bid was "well over $1bn," the Chicago-based group said.

The bidders are understood to be: Kansas City Southern, a neighbouring rail system; the Denver & Rio Grande, which is owned privately by the Anschutz family of Denver; Guilford Transportation Industries of Massachusetts; and management and labour unions at the railroad.

The auction of the railroad was forced on Santa Fe when the Interstate Commerce Commission ruled last summer that the merger was anti-competitive. But the sale has been overshadowed by this month's announcement that the entire group was for sale for just under $10bn in cash.

Henley, a California conglomerate with 14.1 per cent of Santa Fe, is in talks with banks about financing an offer of $63 a share for the stock it does not own. Olympia & York, a large property group controlled by the Reichmann family of Toronto, has said it may bid for the company.

Anatole Kaletsky on a surprise about-face for a US broker

Hutton returns to the altar

"WHEN E.F.Hutton speaks, people listen."

For years this advertising slogan stood as a famous symbol of the boundless self-confidence, bordering on arrogance, of the entire stockbroking fraternity on Wall Street. It seemed appropriate, therefore, when America's third largest retail stockbroking firm responded to the market crash of October with a new, somewhat confused and obviously chastened, slogan.

"A new day has begun. E.F. Hutton - we listen," the firm announced in a costly media blitz covering the pages of business nespapers and periodicals in the two weeks after Black Monday. What nobody realised until Monday was just how willing to listen E.F. Hutton had suddenly become.

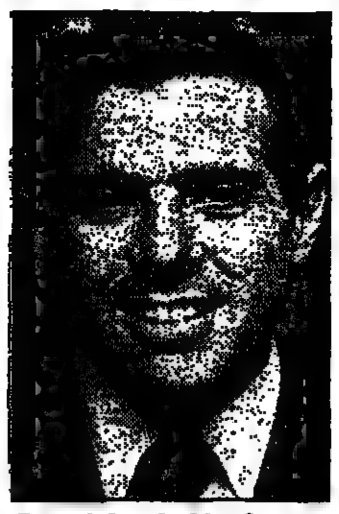
The announcement that Hutton had decided to "pursue discussions with prospective investors and acquirers" - followed shortly afterwards by a statement from Shearson Lehman Brothers that it was in talks on buying the firm - was the strongest evidence to date that a new era really has begun for the whole of Wall Street.

"The entire industry is in a new environment," Mr Robert Rittereiser, Hutton's chief executive, reportedly told Mr Peter Cohen, Shearson's chairman, on Monday, in explanation of his sudden decision to put his firm up for sale. For Mr Cohen, the words must have sounded satisfyingly ironic.

Exactly a year ago in October 1986 a previous round of merger negotiations initiated by Mr Cohen were strongly rumoured between the two firms.

So strong were the rumours that the Securities and Exchange Commission was believed to have launched an investigation into suspicious price movements in Hutton shares and raised questions about whether there should have been public disclosure about the possible merger.

The reports of an SEC study into Hutton's share price movements, which emerged in August, were only the latest, and least significant, in a long series of legal and financial setbacks which Hutton had suffered in the last few years. The legal troubles started with a cheque-kiting and false accounting fraud, which ran for two years from 1980 onwards, and was eventually admitted in 1985, with a consent decree and a $2m criminal fine paid by Hutton. Then there was a $130m reserve in the fourth quarter of last year to indemnify Hutton investors losses on a product which had been misrepresented by the firm's salesmen.



Peter Cohen: looking for cuts

There was another $40m investment loss back in 1985, and this year there have been fines connected with commodity violations and further consent decrees covering irregularities in the firm's foreign exchange operations.

With this kind of record for accidents and misjudgments, morale at Hutton had been extremely low for several years, and even before the market crash it had been viewed as the most vulnerable of the big firms on Wall Street. Nevertheless, it seems to have been Hutton that eventually broke off the earlier merger talks with Shearson.

Some analysts believe that Shearson was unwilling to give existing members of Hutton's management the guarantees they wanted about their future. However, an even more important factor appears to have been price. Shearson's best offer, said to have been about $50 a share, was viewed as inadequate. Even after a jump of more than one-third in reaction to Monday morning's announcement, Hutton's share price closed at only $27⅛ by the evening.

Today, of course, Shearson's previous offer, if it was ever firmly made, is nothing more than a historical curiosity. In the last month, the value of every Wall Street firm has plummetted and it would be surprising if Shearson or any other suitor were to offer Hutton much more than half the $54¼ at which its shares peaked in the last 12 months.

The firm's book value is around $26, putting a value on the whole company of $860m, and shareholders of American Express, Shearson Lehman's parent company, would doubtless look askance at any offer significantly more generous than this.

In terms of profitability, in fact, even this would seem a very generous price to pay for Hutton, whose net earnings for 1987 Ms Brenda McCoy of Paine Webber has estimated, in the wake of Black Monday, at only 91 cents a share. If 1988 earnings also come out below $1, as Ms McCoy has predicted, the sort of offer which seems to be anticipated by Wall Street in valuing Hutton's stock at over $27 seems ambitious.

Of course, any such calculation is highly speculative because nobody has any real idea of the impact of the market crash on Hutton's earnings, or even on its solvency. Just after Black Monday Hutton was worse afflicted by rumours of potential insolvency than any other major Wall Street firm. While most analysts consider such speculation to have been grossly exaggerated, Hutton's past record of lax management can scarcely be reassuring to a potential buyer.

To make matters worse, nobody can claim to have any real idea of what a long-term bear market might do to the prospects of even the best managed firms on Wall Street.

Why then should Shearson be interested in this acquisition at all? There would be two immediate benefits for Shearson and, equally important, its parent company - American Express, which still owns over 60 per cent of Shearson's equity after a well-timed partial flotation in the spring.

The combination of Hutton and Shearson would create the first retail brokerage business that could rival Merrill Lynch, the long-time market leader. At present Hutton and Shearson come third and fourth in the ranking of retail brokers, with about 6,000 sales representatives each.

Shearson and Amex may well believe that a near-doubling in the salesforce could create important new competitive opportunities not only for the brokerage business but also for other American Express financial products.

The second obvious benefit of a combination would be in back-office savings. Shearson officials believe that they already have enough back office computer and clerical capacity to handle the combined operations of the two companies. If, as is quite possible, business begins to decline in a bear market, then spreading the cost of these facilities across a wider business will become even more important.

But this still leaves two more important questions about the whole brokerage industry. Will a Hutton-Shearson combination be the precursor of other huge mergers, designed to create firms big enough not only to spread their costs but also to compete against the commercial banks and foreign brokers which are beginning to threaten the previously protected investment banking industry?

Will such mergers turn out to be an unexpected boon for shareholders and partners in brokerage firms, just as they were in London after the Big Bang?

At present, nobody can claim to know the answers, although Mr David Ruder, chairman of the SEC, ventured an off-the-cuff answer to the first, when he predicted that there would indeed be further big mergers in the aftermath of the October crash.

As for the second question, the first indication will come when the details of any Shearson bid for Hutton are disclosed.

INTL. COMPANIES & FINANCE

Indosuez to sell Banque Vernes

BY PAUL BETTS IN PARIS

BANQUE INDOSUEZ, the large French bank owned by the recently privatised Suez financial group, is in advanced negotiations with Istituto San Paolo di Torino aimed at forging links with the Italian public banking institution.

The negotiations involve the sale of Banque Vernes, a small bank controlled by Suez to San Paolo. At the same time, the Suez group may take a stake in San Paolo.

The Italian banking institute, which is considering plans to open up its capital to outside shareholders, recently took a 1 per cent stake in Suez to become one of the French group's new hardcore shareholders.

Suez and San Paolo are also negotiating setting up a joint leasing company and discussing working together in Europe on all their Ecu transactions, a field in which the large Italian bank has developed a major presence.

Although Suez is understood to be also discussing with other banks the sale of its Vernes subsidiary, the privatised French group would clearly prefer to reach agreement on the sale of Vernes with San Paolo as part of the overall package of joint collaboration between the two banks now under negotiation.

However, the sale of Vernes to San Paolo is understood to pose a delicate problem for Suez and the French authorities because the French Government has never been keen to see a privatised company sell a subsidiary to a foreign group so soon after its privatisation.

Banque Vernes was nationalised by the former Socialist Government in 1982. The Government subsequently transferred ownership of the troubled small bank to Suez, then also nationalised. Suez has since restructured Vernes which no longer loses money.

Suez was never keen to keep the small bank - which has total assets of about FFr17bn ($3bn) - because many of its operations duplicated those of Banque Indosuez.

Bayer has steady nine months

BY DAVID MARSH IN LEVERKUSEN

BAYER, the large West German chemicals group, boosted pre-tax profits by 7.5 per cent to DM2.41bn ($1.44bn) in the first nine months of this year, and looks set to pay an unchanged dividend of DM10 a share for 1987.

The comparative profit figure for 1986 was DM2.24bn. The year-on-year profits growth rate has speeded up during 1987, with third-quarter pre-tax profits showing a 15 per cent increase compared with 1986.

Mr Hermann Strenger, the chairman, said that Bayer's high proportion of speciality chemicals in its product mix, as well as its large foreign production facilities, gave it protection from economic and currency turbulence.

Mr Strenger gave an optimistic assessment of 1988 prospects, saying next year should bring a slight increase in turnover and stabilisation of profits at a high level.

Bayer world group sales in the first nine months fell 4.3 per cent as a result of the strong D-Mark to DM28.15bn from DM29.42bn in the same period last year.

Emphasising the healthy international chemicals market, the Bayer group's volume turnover rose 3 per cent in the first nine months, with the 4.3 per cent turnover drop in D-Mark terms due exclusively to currency variations.

A total of 78 per cent of the group sales was carried out abroad, with the foreign share of parent group turnover in the nine months amounting to 65 per cent. West Europe's share of total group sales rose to 58 per cent from 54 per cent.

Stressing how foreign production helped cushion the company against currency changes, Mr Strenger said Bayer produced in the market itself 90 per cent of its sales in North America and 30 per cent of turnover in the Far East. A share of 40 per cent of sales in Western Europe outside Germany was produced on the spot rather than exported, he said.

Bayer's US companies - where it has turnover of $4.3bn - would export a total $500m worth of chemicals this year, about half of which would go to Germany, he said.

Capital investment for the Bayer group this year is projected at DM2.4bn, against DM2.07bn in 1986. A share of 45 per cent of this year's investment is geared to expanding capacity against 43 per cent last time.

Scandinavian groups in software deal

By Olli Virtanen in Helsinki

TIETOTEHDAS, Finland's leading computer services company, has acquired a controlling stake in Mods Datema, the Swedish software group. Tietotehdas paid SKr117.2m ($19.5m) for 54.6 per cent of Mods Datema's equity.

Tietotehdas is listed on the Helsinki stock exchange while Mods Datema's shares are quoted on Stockholm's OTC market. Under the deal, Tietotehdas will buy 2.4m A shares and 4.9m B shares. The transaction will give Tietotehdas 74.1 per cent of the Mods Datema votes.

Turnover of Tietotehdas is expected to total FM472m ($115.4m) this year while that of Mods Datema is expected to reach SKr554m. The combined turnover of approximately $210m makes Tietotehdas one of the leading computer services companies in northern Europe.

Tietotehdas has concentrated on the Finnish market where its staff totals 1,400. Its turnover has grown at an average rate of 30 per cent annually during the past five years.

Mods Datema has 10 operating units in Sweden and other Nordic countries with a total workforce of 780.

Creditanstalt rides out market crash

By Our Financial Staff

LAST MONTH'S collapse on world stock markets had almost no effect on Creditanstalt-Bankverein, Austria's biggest bank which still plans to pay a higher dividend this year, Mr Hannes Androsch, the managing director, said yesterday.

He said: "We still intend to raise the dividend, but we want to wait until the last possible moment before making a decision." Rising savings ratios and low credit demand were putting pressure on the bank's trading margins, he said.

Creditanstalt paid a dividend of 12 per cent for 1986 after 10 per cent the year before.

United Breweries holds dividend, plans scrip

BY HILARY BARNES IN COPENHAGEN

UNITED BREWERIES, which is to change its name to Carlsberg, its best-known beer brand, increased its pre-tax profits from DKr764m to DKr817m ($133.1m) in the year ended September.

The board is to maintain the dividend at 15 per cent and plans a one-for-five scrip issue.

The earnings improvement came from breweries in Denmark, the UK, Hong Kong and Malawi. The brewery in Italy traded badly while there was a big loss in Spain as a result of heavy restructuring costs.

Group net sales increased from DKr9.07bn to DKr912bn, but after allowing for divestments there was an increase of about 6 per cent for comparable entities.

About 70 per cent of the group's beer was sold abroad, either via direct exports or brewed abroad on licence or at the brewery's own breweries.

Non-beverage sales declined slightly as a result of divestment to just over 30 per cent of group sales.

Announcing the change of name, the board said that the name United Breweries, by which the group has been known since the Carlsberg and Tuborg breweries merged at the beginning of the 1970s, gave the group an insufficiently distinct business profile.

The Carlsberg and Tuborg brand names will both continue to be used.

Japanese buy Paris site

ATLANTIQUE Montparnasse, the largest commercial property development in central Paris covering some 15 acres, has changed hands for $372m, writes our Financial Staff. Kowa Real Estate of Japan is buying the site from US-owned Kaufman and Broad Home Corporation and its French partner in the project, Groupement Foncier Francais.

SGS Thomson forecasts FFr600m loss

BY OUR PARIS STAFF

SGS THOMSON Microelectronics, the joint semiconductor venture set up between Thomson of France and Stet of Italy, expects to report losses of about FFr600m ($106m) this year as a result of costs incurred in restructuring the merged operations.

However, Mr Pasquale Pistorio, the chief executive, said yesterday he hoped the merged company would start to break even in the last months of next year. He said sales were expected to reach about $850m this year and close on $1bn in 1988.

The restructuring of the merged semiconductor operations will involve further job cuts and a rationalisation of the venture's industrial facilities. With 23 plants at the time of the merger last June, the group had a lot of production overlap to reduce, Mr Pistorio said.

Two plants in the Far East have already been closed and the start-up of SGS's new plant in Phoenix, Arizona, will be delayed as part of the rationalisation programme.

During the last few months the group had shed about 800 jobs. The workforce is now 17,800 and more job reductions are expected in coming months. Mr Pistorio said his target was to increase turnover to more than $70,000 per worker by 1989. At present, the turnover per employee figure was above $50,000 against $44,000 at the time of the merger.

Mr Pistorio also said that the group was keen to make a strategic alliance with a Japanese manufacturer to smooth access to the Japanese market. At present, the combined SGS Thomson chip operations do less than $10m worth of business in the $15bn Japanese market, Mr Pistorio said.

Mr Pistorio also said the semiconductor market as a whole would have a difficult year in 1988 as a result of the recent stock market collapse and its economic repercussions. This would lead to even tougher competition with the trend of concentration in the industry accelerating in the next three years.

INTERNATIONAL COMPANIES & FINANCE

Nobuko Hara on the publisher's plans for a foreign English-language newspaper

Maxwell's Japanese mission loses steam

MORE THAN a month after Mr Robert Maxwell's visit to Japan, it is looking increasingly doubtful that his Japan Daily venture will be launched early next year, as he had confidently declared, and less than certain that it will ever reach the streets.

At the end of a two-week stay in Japan, the British newspaper magnate announced his intention to start the English-language title in a link-up with Yomiuri Shimbun, Japan's leading newspaper with a circulation of more than 9m.

The new paper would be printed simultaneously in London, New York, San Francisco, Los Angeles and Tokyo.

"I'm an old friend of Japan," declared Mr Maxwell, who was there during the occupation following the Second World War. "Japan is very bad at presenting itself overseas... This is what the Japan Daily is supposed to put right."

Adopting a mission to improve the international relations of the country of mounting trade surpluses, he also met Mr Shin Kanamaru, a powerful statesman and the mentor of Mr Noboru Takeshita, the new Prime Minister, to offer his help in setting up a study group to do just that.

However, a feasibility study for the Japan Daily, which was scheduled to be completed at the end of October, has only just got under way and Mr Maxwell's planned return visit has been postponed.

According to Mr Yosoji Kobayashi, the 74-year-old president of Yomiuri Shimbun, all that had been decided "was that it's a good idea jointly to start an English language newspaper."

Daily Yomiuri: faces replacement by Japan Daily

This stemmed from a meeting lasting less than an hour. Mr Yasuo Suzuki, a Yomiuri deputy foreign editor, added: "Discussions on target markets or editorial policy have hardly begun. We have had very little feedback from Mr Maxwell.

"We are still trying to find out from Mr Maxwell how big a market there is for the Japan Daily."

Before his departure from Tokyo, Mr Maxwell named target audiences as civil servants, academics and businessmen, and anticipated an initial circulation of between 100,000 and 150,000, two thirds of which would go to the US.

But a gulf in perceptions is apparent.

Mr Kobayashi sees the Japan Daily very much as a tool to expand his newspaper overseas. This would allow extended satellite printing of the Yomiuri, and would replace its existing English edition published for foreigners in Japan.

The British publisher wants to turn Maxwell Communications, the renamed BPCC, into a global information empire by 1990.

The Japanese side emphasises that editorial control would be entirely in Yomiuri's hands, although Mr Maxwell intends to second a few Daily Mirror sub-editors in advisory capacities.

As Mr Kobayashi puts it: "Mr Maxwell is concerned only with selling our Yomiuri... I want people overseas to read exactly what the Japanese public reads."

Thus, if the China Daily - in which Mr Maxwell has an interest - is Deng Xiaoping's propaganda tool, the Japan Daily, if launched, could turn into Yomiuri's promotion vehicle.

Newspapers in Japan tend to be less strident, lacking the strong editorial policies of European and American counterparts. In its present English form the Daily Yomiuri, like other domestic English language dailies, consists mainly of foreign news agency material.

In spite of the difficulties, Mr Kobayashi is keen on the joint venture. "As long as there is a good prospect of success, pouring in funds will be no problem," he said.

There seems no shortage of cash at Yomiuri, which has a substantial stake in a television network and owns the Giants, Japan's most popular baseball team. But as a private company, its financial performance and assets remain concealed.

Some suggest that Mr Maxwell might finally opt for a more pliable partner - a smaller Japanese newspaper is showing an interest in forming a partnership with him.

Mr Maxwell's enthusiasm for Japan is beyond doubt. Between meetings with publishers and politicians during his visit, he concluded a Y2.5bn ($18.4m) deal with Toshiba to distribute a computerised English language teaching system.

He already has a small stake in an English language school in Tokyo. Maxwell Communications is listing on the Tokyo Stock Exchange in a move to improve business links.

Mr Maxwell said: "We realise we can't just come into Japan and buy major companies. We have to be associated with them."

Mr Rupert Murdoch, whose News Corporation holding company has even loftier global ambitions, was in Japan at the same time. He is reported to have found the industry too expensive for his taste.

Mr Maxwell, perhaps conscious of an opportunity to outdo his rival, takes the opposite view: "I'm prepared to pay any price for a Japanese paper, if I'm invited to. But not to take it over."

He is prepared to take a back seat because "letting a *gaijin* (foreigner) run a Japanese company is like taking Mount Fuji to Chelsea."

But, in exporting an English translation of the Yomiuri Shimbun, that may be precisely what he is trying to do.

Japanese finance groups firmly ahead

BY IAN RODGER IN TOKYO

PRE-TAX profits of Japan's two leading consumer finance groups grew strongly in the six months to September, reflecting the buoyancy of consumer spending in the period.

Nippon Shinpan, the largest in the sector, had an 8.5 per cent rise to Y11.1bn ($82.3m) while **Orient Finance** was up 13.8 per cent to Y15bn. Nippon Shinpan has raised its interim dividend by 10.5 per cent to Y5.25 per share, but Orient has held its payout at Y5.50.

Nippon Shinpan said its profit rise was attributable in part to increased commission revenues from credit sales, resulting from a rise in the number of its credit card holders. Orient said business was brisk from both individual and corporate customers, more than offsetting sluggish sales of the credit card division.

Operating income at Nippon Shinpan was up 2.7 per cent to Y119.7bn, due to strong performances from the credit and lease business divisions, and at Orient grew 19.6 per cent to Y161.9bn. Orient's income from the financial service division, which covers corporate customers, soared 86.3 per cent to Y65.8bn, while the credit division, which includes loans to individuals, was flat at Y97.2bn.

Orient has increased its provision for depreciation and bad debts by Y15bn. Net profit was Y6.2bn or Y20.17 per share, up only 2.8 per cent. Net profit of Nippon Shinpan was up 8.6 per cent to Y4.2bn.

For the full year, Nippon Shinpan is looking for a 4 per cent rise in pre-tax profits, while Orient expects a 18 per cent increase.

Investment income helps Santam increase profit

BY JIM JONES IN JOHANNESBURG

SANTAM, the short-term arm of the Sanlam insurance group, suffered a drop in its underwriting profit in the year to September, in spite of higher premium ratings and increased premium income.

An increase in investment income, however, led to a higher overall profit for the year.

Gross premium income rose to R643m ($326.8m) from R549m and net premium income increased to R577m from R487m. The pre-tax underwriting profit declined to R20.3m from R21.0m, investment income rose to R26.9m from R22.6m and profit after tax was R29.1m against R15.1m.

The directors have not commented on the results. However, short-term insurers have benefited from increased premiums, particularly on motor business, and a winding down of the war for market share.

The industry as a whole fears that flood damage claims in Natal will severely affect the current year's business.

● Tongaat-Hulett, the Anglo American group's Natal industrial holding company, was affected by recent floods in the province but expects to increase sales and profits this year. Turnover increased to R1.29bn from R1.04bn in the six months to September and the interim pre-tax profit rose to R84.8m from R47.1m.

Paul Betts reports on concern over Ferruzzi's stake in Saint-Louis

French monopoly policy put to test

NEARLY a year after it was set up, the Conseil de la Concurrence, or French monopolies council, is facing its first big international case.

The council has just been asked by Mr Edouard Balladur, the Finance and Economy Minister, to look into the recent acquisition by Ferruzzi, the Italian food and agricultural industry group, of a 13.6 per cent stake in Saint-Louis, France's second largest sugar producer.

The action was taken after Saint-Louis' management expressed concern over unsolicited share buying by Ferruzzi in the French group. The Italian company is controlled by Mr Raul Gardini, who already controls Beghin-Say, France's largest sugar manufacturer.

His move against Saint-Louis, which follows his earlier unsuccessful bid for British Sugar, raises among French authorities questions of industrial concentration since, between them, Beghin-Say and Saint-Louis control about 75 per cent of the French sugar market.

Although Saint-Louis has already acted to protect itself from a hostile bid by consolidating control of the company into the hands of friendly shareholders led by the Worms group, it has also felt the need to refer the issue to the competition council.

The independent council is expected to take two to three months to review the Ferruzzi move. It will then make recommendations to Mr Balladur, who will take the final decision on the issue.

The case will give the council a chance to tackle a complex competitive issue with European, as well as domestic implications.

The council itself was set up last December as part of the French conservative government's new competition bill, designed to remove price controls from most industrial and service sectors while introducing rules to govern cartels and price-fixing.

The Government has always been committed to removing price controls for industrial companies, a policy initiated by the previous Socialist administration but accelerated under the present Government.

While lifting price controls and industry and services, the Government has, none the less, retained powers to intervene in a crisis or if prices move out of control without economic justification.

Coupled with the removal of price controls, the Government also decided to hand over the policing of the competition rules to the new independent council, which is comprised of magistrates, lawyers and representatives of business and consumers.

The council has the power to investigate anti-competitive practices, such as price cartels or the abuse of a dominant market position, on its own initiative or at the request of companies or organisations. In these matters, the Finance Minister no longer has any power of veto.

But Mr Balladur has decided to keep in his own hands decisions on mergers and industrial concentrations.

Under the new system, mergers which lead to the creation of a company with a market share of more than 25 per cent or with turnover of more than FFr7bn ($1.23bn) will normally be referred to the council for an opinion. The Ferruzzi share build up in Saint-Louis falls in this category.

However, while the referral of the Ferruzzi move reflects the new French policy on competition in action, it also highlights the peculiarly French characteristics of the system.

For although the administration has sought to adapt the country to the new environment of international competition, it has also ensured that it retains ultimate control over the process. The final decision on the Saint-Louis case will rest firmly with the Finance and Economy Minister.

Financing for British leisure park completed

By Our Euromarkets Staff

A $95m DEBT financing for a huge leisure development in the British Midlands has been completed among a group of international banks led by Security Pacific.

The secured financing for the Wonderworld Theme Park near Corby comprises a $47m fixed-rate 10-year loan from the European Investment Bank, guaranteed by the banks, a $28m five-year revolving credit at 1.5 per cent over London Interbank offered rate (Libor), and a $20m working capital loan at 2 per cent over Libor.

A private placement of shares worth $95m, representing some 85 per cent of the company's equity, is being marketed to UK, US, Japanese and Hong Kong institutions.

The placement, whose progress has been hampered by last month's stock market crash, is scheduled for completion some time in January.

Construction work, expected to take 39 months, can start at any time. About 4.25m visitors are projected to visit the park, with a site covering 1,250 acres, in its first year.

Zurich referendum called over curbs on registered shares

BY JOHN WICKS IN ZURICH

A REFERENDUM, aimed at protecting shareholders' rights, is to be held in the Zurich Canton to counter restrictions on the negotiability of registered shares.

The motion is being launched by Denner, the discount retail chain, whose proprietor, Mr Karl Schweri, was involved last year in a bid to acquire control of Usego Trimerco, a rival retail group.

His bid was foiled when the company refused to enter into the share register a number of holders of registered shares whom they believed were acting for Mr Schweri.

Managements have refused to enter registered shares in several other important cases in recent months in which Swiss companies have fought off unwelcome takeover attempts.

These include the fending off by Hero, the foods group, of Jacobs-Suchard, the coffee and foods group, and the defeat of an investor consortium by Georg Fischer, the engineering company.

At present, similar measures are being taken by Sulzer Brothers in the face of the purchase of about 35 per cent of its capital by a syndicate headed by Mr Tito Tettamanti, a Lugano lawyer.

The question of registered shares is also to be discussed by the Commission of the States Council, Switzerland's upper house of parliament, next February.

The Denner referendum would limit listings on the Zurich Stock Exchange to those of securities whose transfer to a new holder does not require approval from the issuing company's board.

Denner claims that such approval - as is needed for entry into a share register - represents a curtailment of market activities with a corresponding effect on share prices "and thus the rightful interests of investors."

The referendum, which will need to obtain supporting signatures before it can be put to the ballot, would allow registered shares "only where registration is aimed against foreign control" of a company.

The Zurich Stock Exchange is controlled by the cantonal authorities, which explains the need for the motion both to come before the cantonal council and to be put to a popular vote.

●Total assets of the 71 largest Swiss banks rose 10 per cent in the third quarter from the same period a year ago, in spite of the dollar's marked weakness, Reuter reports from Zurich.

The Swiss National Bank reported that assets had risen 9.2 per cent in the year to June 30, though it gave no absolute figures.

Fiduciary deposits administered by the banks continued to decline, dropping 3.7 per cent in the quarter when measured in foreign currencies and 3.5 per cent in Swiss franc terms.

Banks' holdings of securities were up 17.4 per cent, while financial investments as a whole grew 3.4 per cent.

Total credits held by the banks were up 11.5 per cent from the third quarter of 1986, although foreign credits grew faster than domestic loans, reversing a recent trend.

Foreign loans increased 16.5 per cent, while domestic credits grew by 10.3 per cent.

Deposits by the public were 8.9 per cent higher in the quarter.

Spanish banking mergers urged

By Tom Burns in Madrid

MR CARLOS SOLCHAGA, the Spanish Economy Minister, has faelled speculation over a sweeping reorganisation of the banking sector by calling for further mergers among Spanish banks.

His comments come hard on the heels of Banco de Bilbao's recent and controversial bid to absorb Banco Espanol de Credito (Banesto).

Mr Solchaga was quoted yesterday as saying he did not know of any new mergers under discussion. But he added: "We would be happy if there were."

The minister said the Government had been kept fully aware of Bilbao's designs on Banesto and that it "looked favourably" on the proposed absorption.

He added that although it was difficult to predict the impact that Bilbao's bid would have on further moves to integrate the Spanish banking sector, "it is difficult to imagine (integration) stopping at this point."

Mr Solchaga's remarks came as the domestic banking sector was still reeling from the boldness with which Bilbao - Spain's third largest bank in terms of assets - bid at the end of last week for control of the second-ranking Banesto, with a view to creating a new, and clearly dominant, banking group.

At a tense meeting on Monday of the Supreme Banking Council, the sector's watchdog, senior executives of several of Spain's "big seven banks" made it clear they were upset and angered by the development.

Mr Epifanio Ridruejo, of the Banco Central, was quoted as saying the bank he represented did not "like at all what is happening" while the representative of Banco Popular, the seventh-ranking bank, was quoted as saying the "harmony" that reigned in the sector had "been broken."

In a revealing statement at the meeting, Mr Jose Maria Lopez de Letona, Banesto's managing director, was quoted as saying that Banesto considered itself "prejudiced" by the manner in which Bilbao's bid had been made. In a statement last week, Banesto described the merger proposal as "unilateral."

The watchdog council meeting, in spite of the misgivings, did not oppose the merger proposals.

This was due in large measure to the presence at the meeting of Mr Guillermo de la Dehesa, Secretary of State for the Economy, who is reported to have kept the focus of the meeting on the legality of Bilbao's move and to have averted a vote being taken on whether the council approved the proposed merger.

Yesterday, Mr Lopez de Letona and Mr Jose Angel Sanchez Asiain, Bilbao's chairman, began formal negotiations - likely to last into next week - which will define the eventual hostility or friendliness of the bid.

The blessings that Mr Sanchez Asiain has received from government officials indicate that Banesto will be fully stretched to resist Bilbao's overtures.

Aegon plans partly-paid bullet bonds

AEGON, the leading Dutch insurance company, plans to issue Fl 100m, 7 per cent, partly-paid bullet bonds due 1998 at an issue price of 101 per cent, Reuter reports from Amsterdam.

Amro bank, which is leading the issue, said this was the first time a partly-paid bond had been issued on the Dutch capital markets.

A first payment of 20 per cent of the issue has to be made on January 4 1988, while the remaining 80 per cent has to be paid on July 4 1989. Subscriptions close on December 1. Coupon date is January 1.

The underwriting syndicate is led by Amro, ABN and Morgan Bank Nederland and consists of NMB Bank, Rabobank, Pierson, Heldring en Pierson, Bank Mees en Hope, Van Haften en Co, Citicorp Investment Bank (The Netherlands), and Swiss Bank Corporation International Holland.

Partly-paid bonds were chosen to attract investors expecting a lower interest rate and because of Aegon's liquidity demand structure.

The 20 per cent first payment and 80 per cent further payment in 1989 could attract investors who were cash squeezed after the stock market falls, Amro added.

The bonds, which will be provisional certificates until July 4 1989, will be listed on the Amsterdam Stock Exchange.

Markets welcome cuts in European interest rates

BY CLARE PEARSON

BOND MARKETS were heartened yesterday by cuts in European short-term interest rates which appeared to give the stamp of approval to last Friday's US budget deficit reduction deal.

The Bundesbank's surprise ¼ point reduction in its securities repurchase rate to 3.25 per cent yesterday morning was swiftly followed by cuts in certain French and Dutch rates.

The cuts raised hopes that leading industrial nations might agree to lower other key rates - notably the West German 3 per cent discount rate - after the $76bn budget package had been passed by Congress, to give greater stability to the dollar.

But immediate price gains in non-dollar bonds were tempered by concerns that lower interest rates were already built into prices, and by the firmer dollar.

Meanwhile, Eurodollar bonds developed a firmer tone although, in the face of a quiet US Treasury bond market, prices were unable to make much headway and closed unchanged to ⅛ point better.

Prices of West German government bonds, which are mostly bought by foreign investors, shed around 20 basis points at the longer maturities yesterday. But shorter-dated bonds closed a touch firmer in response to the lower repurchase rate.

Early gains in D-Mark Eurobonds were pared later as dealers focused on the D-Mark/dollar exchange rate, although shorter-dated bonds still closed around ¼ point firmer on the day.

Commerzbank announced a new DM150m five-year 5⅞ per cent bond for East Asiatic, the Danish trading company, priced at par. Dealers said the borrower's name was not very well-known in the market, but the bond's terms looked fair. The bond was quoted at around less 1⅝, to give a yield about 65 basis points higher than comparable domestic bank bonds.

Ecu bonds were firmer during the morning, but then suffered profit-taking to close about only ⅛ point higher. Dealers said one or two new issues could surface this week, although they would have to be for a high-quality name. An Ecu100m three-year bond for IMI Bank, launched on Monday, was quoted at less 1⅝ bid, the level of its total fees, but dealers said it was attracting little retail interest.

INTERNATIONAL BONDS

A DM250m eight-year floating rate note, convertible into a fixed rate bond, for the Council of Europe, which was launched on Monday was bid yesterday at 99.90, compared with a par issue price.

Eurosterling bond prices closed unchanged, after an afternoon speech by Mr Nigel Lawson, Chancellor, which indicated he had no immediate plans to follow West Germany in cutting interest rates.

Speculation was rife that a long-awaited bond for Belgium might finally be surfacing in the Euroyen market. But, though one syndicate manager said the kingdom had taken firm bids for an issue in a variety of currencies yesterday morning, the bond failed to emerge.

Earlier, dealers were talking about a Y55bn seven-year 5⅛ per cent bond, priced at par - terms which struck them as attractive.

Sanwa International launched a $30m bond for Flash Four, a special purpose vehicle, maturing in July 1992, and backed by Japanese ex-warrant bonds. The bond, priced at 100.10, pays 20 basis points over six-month London interbank offered rate (Libor). But during the short, first coupon period, it pays the same margin over 1½ month month Libor.

In Switzerland, prices ended the day a touch firmer in fairly high volume. Dealers said retail deamnd was still strong for high quality issues. A SFr150m bond for Electricite de France, launched on Monday, was oversubscribed and quoted in the grey market at levels around its issue price.

A SFr200m dual-tranche issue for the World Bank traded for the first time yesterday. The 5 per cent, seven-year portion closed at 101¼, 1¼ points above its issue price, while the 5⅛ per cent 10-year tranche closed at 101, compared with a 99¼ issue price.

Oesterreichische Kontrollbank's SFr200m 5 per cent 10-year bond, also trading for the first time, closed ¾ point below its 100¾ issue price. The SFr40m 5⅛ per cent tranche, due in 1995, of an issue for City of Copenhagen, closed its first day's trading at 101, one point above its issue price. The SFr40m 5⅛ per cent 10-year tranche closed at 100⅝, against a par issue price.

Banque Paribas (Suisse) led a SFr41m five-year 4½ per cent bond, priced at 99⅞, for Office Central de Credit Hypothecaire, guaranteed by Belgium.

Galadari debt set to be rescheduled

A CONSORTIUM of mainly Western banks is planning to sign a 10-year debt-rescheduling pact with the Galadari Brothers group in Dubai in the next two days, AP-DJ reports from Bahrain.

Bankers in the region said yesterday that, barring any last minute problems, the nine banks in the consortium would sign the $72.5m agreement by Thursday.

On Saturday, the consortium is scheduled to appear in a Dubai court on a complaint filed on its behalf by Citibank against the Galadaris. The complaint is expected to be dropped when the debt accord is signed by the consortium.

Bankers declined to provide exact details of the agreement prior to the signing, but the rescheduling is the result of a $68m loan on which the Galadaris suspended payment in 1984.

Citibank is the lead bank in the consortium.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on November 24

US DOLLAR STRAIGHTS

YEN STRAIGHTS

OTHER STRAIGHTS

FLOATING RATE NOTES

DEUTSCHE MARK STRAIGHTS

CONVERTIBLE BONDS

SWISS FRANC STRAIGHTS

UK COMPANY NEWS

Tokyo to refuse quotation for Reuter

BY IAN ROGER IN TOKYO AND RAYMOND SNODDY IN LONDON

The Tokyo Stock Exchange is expected to refuse any application from Reuter Holdings, the UK-based news and financial information group for a share listing in Tokyo.

The problem is being caused by Reuters A shares held by founder shareholders each of which carry four votes.

Mr Michael Cooling, Reuter's manager of corporate affairs, said yesterday: "We have realised since July there was a potential problem. But we have no intention of changing our share structure. We will continue our negotiations with the Tokyo Stock Exchange."

The company says the privileged A shares are designed to protect Reuter's independence and integrity. Reuters wanted to list its class B shares, each of which carries one vote. These are the shares which are traded on the London Stock Exchange and on Nasdaq in the U.S.

The Tokyo Stock Exchange opposes privileged share classes and so, according to newspaper reports in Tokyo, it proposes to refuse permission for the listing of Reuter B shares.

In April Reuter shareholders approved changes to the group's articles of association in preparation for a formal application for a listing.

Instead a formal application has yet to be made and negotiations are still continuing with the Tokyo Stock Exchange.

Walker & Staff falls

A lack of project business and reduced margins on contract sales resulted in interim pre-tax profits for Walker & Staff Holdings, valve and pipework distributor, falling from £147,000 to £128,000. Turnover for the six months to end-September rose to £3.06m, against £2.67m.

Tax took £44,000 (£51,000), for earnings per 5p share of 3.38p (4.48p). Full year results are expected to be less than last time.

Traffic rise helps BAA to £136m

BY LYNTON McLAIN

BAA, formerly British Airports Authority and privatised in a stock market flotation in July, increased historic cost pre-tax profits by 26 per cent, after interest charges of £3m, to £136m for the six months to the end-September 1987.

The interim dividend is set at 3p per share. The board expects to recommend the payment of a final dividend which will result in a total of not less than 7.25p per share for the year.

Revenue for the first half was £307m, compared with £262m last time.

In the offer for sale prospectus, BAA reported strong traffic growth in the first two months of the financial year. This continued for the remainder of the period to the end of September, and resulted in a rise of 15.7 per cent in the volume of traffic.

Sir Norman Payne, chairman, said terrorist activity and the Chernobyl incident affected some markets last year. "A better assessment of the underlying growth trend can be established by comparing the passenger figures for 1987 with those for 1985, which was a more normal year," he said.

"This gives a compound growth over the last two years of 8.4 per cent per annum for the first six months of the financial year."

The company's airports handled 36.4m passengers in the first six months of the current financial year - a rise of 5m on the comparable period last year.

Traffic at the south east of England airports, Heathrow, Gatwick and Stansted, rose by 16.7 per cent, while traffic at Glasgow, Prestwick and Edinburgh grew by 11.1 per cent.

Domestic traffic rose by 10 per cent; European scheduled traffic by 15 per cent and traffic on the north Atlantic markets by 24 per cent; traffic in charter markets rose by 18 per cent, with long haul markets, other than those to and from America, up by 10 per cent.

The number of aircraft movements, rose from 336,000 to 362,000, a seven per cent increase. Cargo tonnage rose by 10 per cent to a record 410,000 tonnes.

BAA joined the Stock Exchange with 2.2m shareholders on July 28. The shares opened at 140p for the £1 partly paid offer. "After nearly four months the figure is approximately 1.2m shareholders," Sir Norman said.

Over the next five years, the company plans to spend over £850m on capital developments. "We have already taken advantage of private sector opportunities to arrange sufficient financing for this development programme," Sir Norman said.

See Lex

Sir Norman Payne: aircraft movements rose by 7 per cent

Acquisitions help lift Erskine 83% to £3.5m

WITH THE help of acquisitions **Erskine House Group**, office equipment supplier, reported interim pre-tax profits up by 83 per cent. Mr Brian McGillivray, chairman and chief executive, said a strong performance was expected in the second half.

Turnover for the six months to the end of September 1987 rose from £33m to £45.96m and pre-tax profits were £3.5m (£1.91m).

Earnings per share were 8.3p, against 6p, a rise of 38 per cent. The interim dividend has been raised to 1.6p (1.2p).

Mr McGillivray said that excellent growth from the main UK office equipment businesses and outstanding contributions from the new acquisitions in both the UK and the US had been behind the result.

He added that confidence among the sales staff was high and profit improvement plans should result in better margins.

The sale of furniture distribution, part of Erskine Business Machines, which resulted in an extraordinary debit of £278,000, allowed the overhead structure to be rationalised. The benefits of that would be seen in the second half.

Zeno, the first US acquisition, made progress, the chairman said, but management of its main Dallas activity had to be strengthened. Better performance is expected.

The tax charge was £1.12m (£557,000) and minorities took £1,000 (£8,000).

Trading profits boost Chase to £9.5m midway

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

Chase Property, the successor of Wingate Property Investments, which a year ago took over the Property Holding and Investment Trust, yesterday announced a 60 per cent increase in its interim pre-tax profits.

It is paying a half year dividend of 1.25p, more than double that paid by Wingate at this time last year.

Disclosure of the profits increase helped to hold the shares firm and they climbed from their overnight price of 215p in a thin market.

Pre-tax profits for the six months to September were £9.5m compared with £5.9m, restated to include the PHIT results, for the same period of 1986. Earnings per share were 8.9p against 7.8p for the first half of the 1986-87 year and 16.1p for the whole year.

The company, controlled by Chase Corporation of New Zealand, bases its assets on the PHIT and Wingate portfolios but this year has branched out into trading and development.

Rental income rose to £5.66m from £5.04m in the 1986-87 first half and profits on the sale of investments were £2.13m against £1.95m. But there is also a new stream of earnings - £3.22m of property development profits.

Chase announced that Mr Sidney Bookman is stepping down as chairman. He will be succeeded by Mr Patrick Garner, the deputy chairman. Mr Bookman was the second chairman of Chase out of the ranks of PHIT. Mr Garner represents the new wave of management.

Shareholders are to be asked to give the board authority to make market purchases of its own shares.

● comment

Chase promised more aggressive management of the PHIT and Wingate portfolios and this has come through now in two sets of figures. Full year profits will depend crucially on the ability to dispose of £90m of property now on the market - a high proportion of the total portfolio valued at £243m last March. Pre-tax profits of around £20m for 1986-87 look likely, giving earnings per share of 18.2p and a prospective p/e of 12.08. Next year benefits from the expanding development programme should start to flow through. The following year is the tricky one - when City and West End developments become available at a time when the supply-demand balance could have evened out.

Market gets rights issues fillip

BY CLAY HARRIS

Henry Ansbacher Holdings, the merchant banking group, and **Compsoft Holdings**, the USM-quoted software house, gave the London market some relief yesterday by reporting that their rights issues had been heavily subscribed.

More typical of the current trend was the response to the … **Energy and Tariff Corporation** rights issues, taken up respectively on behalf of 1 per cent and 1.2 per cent of shares. Both cash calls were underwritten.

Ansbacher said that 92.36 per cent of its £69m issue of ordinary shares and convertible loan stock had been taken up, mostly by controlling shareholders Pargesa Holding and Groupe Bruxelles Lambert and their associates. Through underwriting arrangements, their total stake has risen to 76.8 per cent.

Compsoft's £1.52m issue, of which 97.9 per cent was subscribed, was launched as part of a management buy-in.

Powell Duffryn at £11.5m halfway

THE SEASONAL bias in **Powell Duffryn's** activities and a stronger price of oil were evident in yesterday's interim figures. Group trading profit before exceptional items was at the same level as the strong first half performance in the year before, although its composition changed considerably.

Profit before tax for the first six months of the year was 9.6 per cent higher at £11.54m, compared with £10.53m in the corresponding period last year. This was on turnover of £312.54m, 4.4 per cent higher than last year.

Mr David Hubbard, chairman, said that last year's interim profits reflected unusually favourable trading conditions, when oil prices were low. This year, however, higher and more stable oil prices during the summer months, coupled with increased producer output, have impacted sales volumes and margins in fuel distribution. Trading profit for the division was down from £5.8m to £3.4m at the half year, on turnover down from £169.2m to £162.4m.

Trading profits were also down for the bulk liquid storage division from £1.9m to £1.6m, on turnover down from £12.8m to £12.6m.

Within the engineering division, where trading profits increased from £2.7m to £4.8m, Hamworthy's rate has risen by one third while sales margins have improved from 7 per cent to 10 per cent. This reflects first contributions from recent acquisitions.

Earnings per share were up 13 per cent to 11.4p (10.1p) and the interim dividend increased by 10.5 per cent to 5.25p.

The chairman explained that the preponderance of the group's distribution and storage profits were made in the winter months. "It is our intention to go on building the business as in the past, particularly by investing in fuel distribution," he said. The remainder of the year is expected to be satisfactory, he added.

● comment

Powell Duffryn cannot win for trying. Although a decline in fuel distribution profits was widely expected - the extraordinarily favourable conditions in the first six months of last year, when low prices gave oil a competitive edge on coal, were scarcely expected to recur - the shares fell 5p to 315p on an otherwise strong day in the market. Pleading mercy because of the cyclical nature of many of the group's activities (fuel distribution, shipping and construction) did not seem to carry much weight either. But the performance in specialist engineering activities should continue to strengthen as recent acquisitions increase their contribution, and assuming even a reasonably miserable British winter, full year pre-tax profits should reach £31m. Despite such an uninspiring spread of businesses, a prospective p/e of just over 10 does not look too demanding. And with Ron Brierley in the wings with a holding of nearly 3 per cent, excitement could yet come to PD.

Non-banking side boosts Hambros to £36.6m halfway

A 46 PER CENT improvement in pre-tax profits, from £25.13m to £36.63m was announced by **Hambros**, financial services and estate agency group, for the six months ended September 30.

While its banking profits showed a 30 per cent increase to £19.66m against £15.17m the non-banking side surged 54 per cent from £14.21m to £21.92m.

To reduce disparity between payments the interim dividend is stepped up to 3p (2.4p) per 20p share. A total of 8.2p was paid for the year to March 31 when profits reached £60.77m.

All the group's banking companies lifted profits. In the UK corporate finance income was below the high level of the first half last year, but that had been outweighed, directors said, by improved results from other divisions. The overseas companies all continued to make good progress.

In its non-banking activities results from insurance broking fell from £3.94m to £1.67m, while stockbroking suffered a £613,000 loss compared with profits of £870,000. Those loses were in line with the rest of the market following the 'Big Bang', Mr Christophe Sporborg, chairman and chief executive of the non-banking side, said. Provisions have been made against losses on the group's underwriting and other positions as a result of the recent stock market fall.

However, profits of £10.72m (£3.23m) from Hambro Countrywide, the UK's largest estate agency, 60 per cent owned by Hambros, and from other activites, more than compensated, directors said. Its property businesses contributed an increased £687,000 (£330,000).

Investment gains rose from £2.66m to £6.61m and income from investments showed a rise from £571,000 to £950,000. Diamond operations last time added £626,000 and profits from other activities improved from £509,000 to 656,000. Central finance and overhead costs for the six months took £4.94m (£4.26m). After tax of £12.3m (£8.02m) and minorities of £3.35m (£1.54m) attributable profits came out 35 per cent ahead at £20.98m (£15.57m) for earnings of 13.5p (12p) per share.

Since the end of the period Hambros has strengthened its network of European collaboration, the directors reported. Banco de Bilbao has acquired a strategic holding of 9.5m shares and made a 15-year £25m subordinated loan to the group.

An agreement has also been signed with Bayerische Vereinsbank, and the group recently created jointly-owned fund management companies with both Sanpaolo Bank and Banco de Bilbao to market internationally invested unit trusts in Italy and Spain. Hambros expects to announce tie-ups with a Dutch and a French financial institution shortly.

At home, Hambro Countrywide directors forecast profits of at least £25m for 1987. That company plans to establish a life insurance company in association with Guardian Royal Exchange, beginning operations in the summer of 1988.

● comment

The impact of lower corporate finance income at home was cushioned by the impressive growth of the non merchant banking earnings. Two exceptions, however, were insurance broking, where the reduction of Hambros's stake in Fielding and problems at CE Heath took their toll, and stockbroking, where Hambros' 30 per cent stake in Strauss Turnbull exposed it to the expensive costs of transacting and settling small private client bargains. Hambros is unlikely to reveal a similar gain in investment income at the year end because of the stock market crash. But the estate agency business should be relatively immune from the City's problems, as the majority of customers live outside London, spend less on houses and have no difficulty finding a mortgage. Hambros should report about £76m for the year, which values the shares on a fair prospective p/e of eight at 228p.

Sound Diffusion holders insist on board changes

BY PHILIP COGGAN

THE DISSIDENT institutional shareholders in **Sound Diffusion**, electrical equipment leasing group, who successfully called last week for the resignation of Mr Paul Stonor, the company's chairman, are insisting on the further board changes they requested.

Throgmorton Trust, Allied Dunbar and Fidelity, the three institutions involved, still want Mr Anthony Cross, the finance director, to resign. They wish to appoint two new directors, Mr David Macdonald, the former director general of the Takeover Panel and Mr Francis Howard, the former finance director of Charter Consolidated.

The institutions, which hold 11.7 per cent of Sound Diffusion's equity, added that they "do not consider it in the best interest of shareholders" for the current board to enter into further takeover discussions.

Ibstock buys again

BY MIKE SMITH

Ibstock Johnsen, brick and pulp manufacturer, yesterday made its second acquisition in two days when it agreed to buy Price & Pierce, a marketer of forest products, for $13m (£7.3m) in cash.

Price, which is being bought from Sears, Roebuck and Co, will become the third leg in Ibstock's fibres division. It joins Eucalyptus Pulp Mills, which is becoming a full subsidiary following a £60.5m deal announced on Monday, and fellow forest products sales agency Johnsen, Jorgensen and Wettre.

Mr Ian Maclellan, Ibstock finance director, said this week's acquisitions built up fibres into a meaningful and sensible division and the main thrust of future expansion would be in building materials.

Price, which sells woodpulp, timber, paper and board around the world, has its head office in London and employs 520 people.

In the nine months to September 30, it made pre-tax profits of £1.1m on sales of £37m.

Banner raises TSG holding

Banner Industries, US supplier of aircraft parts and industrial products, has increased its stake in **Transcontinental Services Group**, London-quoted investment business, to about 15 per cent.

Transcontinental, registered in the Netherlands Antilles and managed from New York, specialises in risk arbitrage and medium-term investment. It was taken by surprise by the latest purchases and said it was asking for more complete information.

Banner said yesterday that it had held shares in Transcontinental for about a year, but had raised the stake above 5 per cent only in the past month.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding div	Total for year	Total last year
Alphameric ....int	1†	Feb15	0.75	-	2.5
Anglo Irish Bank ...fin	0.1†‡	-	2.24	3.2	3.2
BAA ....int	3	Jan 27	-	-	-
Cosalt ....fin	3	Jan 27	2.25	4.5	3.5
James Cropper ......int	0.68	Jan 15	0.56*	-	1.63*
Chase Property ......int	1.25	Jan 31	0.61♣	-	3.25♣
Erskine House ......int	1.6†	Jan 12	1.2	-	4
Hambros ....int	3♠	Jan 11	2.4	-	8.2
Monks Inv. Tst. ......int	1.2	-	1.1	-	2.8
North Amer Tr ......fin	4	-	4	5.4	5.4
Powell Duffryn ......int	5.25	Jan 5	4.75	-	16.5
Readicut Int. ....int	0.39†	Jan 12	0.25	-	2.18
TMD Advertising §..fin	2.4	Feb 23	2	2.4	2

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ♦Unquoted stock. ♥Third market. ♣As Wingate Property Investments. ♠To reduce disparity. ‡Irish currency.

Lisa Wood on Allied-Lyons' expansion in world markets

Tidying-up a North American pearl

Since finalising its $445m purchase last December of 51 per cent of Hiram Walker, the Canadian spirits business, Allied-Lyons has been at pains to point out that the acquisition was a pearl. At a stroke, the deal lifted its largely UK-based wine and spirits business into the fourth largest player worldwide with major brands including Ballantines, Kahlua and Courvoisier.

Yesterday it put its money where its mouth is by announcing the proposed $572m purchase of the remaining 49 per cent from GW Utilities, some 88 per cent of which is owned by Olympia & York.

The deal includes $370m of convertible preference shares which, when converted in the 1990s will give GW Utilities a 10 per cent stake in Allied-Lyons. The City had feared that Allied might make a rights issue to fund such an acquisition.

British drinks companies, with major exposure to the large US market, have not exactly been flavour of the month since the October stock market crash. Guinness and Grand Metropolitan, have had their shares marked down by the market because of dollar exposure.

However, Allied's latest move, despite the strong exposure to the US and whisky brands, was fairly well received by the City for a variety of reasons, not least that it would afford the company greater opportunity to rationalise its Allied Vintners and the Hiram Walker drinks operations at a time of intense struggle among the major players for a competitive edge in world markets.

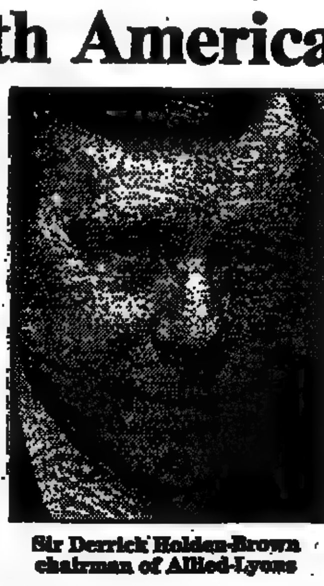
Allied - in what was perceived by City sceptics at the time to constitute an attempt to thwart a take-over bid from Elders IXL - agreed to buy the Hiram Walker wines and spirits division in April 1986 for £1.2bn.

However Hiram Walker was subsequently taken over by Gulf Canada, a subsidiary of Olympia & York, the Canadian real estate and resource company controlled by the Reichmann Brothers. Gulf Canada immediately began legal proceedings to block the Allied acquisition.

Lengthy litigation was resolved with Allied taking a controlling 51 per cent in Hiram Walker spirits with the business being run as a joint venture. However, a complicated "put and call" arrangement was made which gave the Reichmann Brothers the right to sell their stake and Allied the right to buy. Both would have been exercisable next year.

While Allied and the Reichmann Brothers have both said that they were good partners, the Reichmann Brothers like control of their businesses and Allied was prevented from fully integrating the operation with its own.

In addition, while Allied took the whole of Hiram Walker's operations into its pre-tax profits, paying GW Utilities after tax, it could not take the cash flow of what is a strong cash generating business. Hiram Walker, for the six months ended August 31st 1987 contributed sales of £388.1m and a pre-tax profit of £57.6m.



Sir Derrick Holden-Brown chairman of Allied-Lyons

Since taking the majority interest Allied has put a senior management team into Canada and some rationalisation of management structure has been effected.

Consideration has been concentrated on how best to exploit the two groups' strengths with Allied Vintners major markets being in the UK and Europe and Hiram Walker in the large, but difficult, US and Canadian markets together with a small but expanding presence in the Far East.

Allied-Lyons, like its major competitors, intends to be a significant player in the global market where power is being concentrated in fewer hands.

It is a high risk strategy where it will be competing against the likes of Guinness and IDV, the Grand Metropolitan subsidiary. Both these two groups in the last few months have shown strong aggression towards the marketplace.

Allied-Lyons, which has recently launched a new corporate advertising campaign which could be seen as a tiny bit defensive, now has the opportunity to show whether or not itit has the management in place to compete in the world drinks market.

UK COMPANY NEWS

SAS remains interested in 40% BCal stake

BY CLAY HARRIS

Scandinavian Airlines System said yesterday that it was still studying the feasibility of making a partial offer to shareholders of **British Caledonian Group** and of entering "into a close co-operation to establish a competitive worldwide traffic system" between the two airlines.

After two days of talks in London, SAS said, however, that it was still too early to indicate if or when a possible offer could be made or to outline how it would be formulated.

Mr Jan Carlzen, SAS president and chief executive, was flying back to Stockholm last night. He is believed to have been encouraged by discussions not only with BCal but also with the Civil Aviation Authority and the Office of Fair Trading, which is undertaking a formal inquiry.

The proposals under discussion would value BCal at more than £200m. This compares with the £156m value of British Airways' share offer, and its £119m cash alternative.

SAS would take a 40 per cent stake in BCal, paying at least £80m, and there would be a parallel cash injection of £50m, involving other institutions.

In a statement last night, the Scandinavian carrier said that its interest in BCal reflected its strategy "to create a constellation of medium-sized European airlines to provide efficient intercontinental transport competition with Asian and American mega-carriers."

The CAA must determine whether an airline is British-controlled. This depends not only on ownership but also on management of UK operations.

Although the CAA devotes special scrutiny to non-UK stakes of more than 25 per cent, it is free to recommend to the Transport Secretary that he waive usual benchmarks and define a carrier as British. To date, this has been accepted without challenge by foreign governments.

●Britannia Airways, the UK's largest charter carrier, has applied for licences at present held by BCal to fly from Gatwick, to Nice, Athens and Jersey. The routes are among those which BA has offered to give up - and then reapply for.

Rutland takes 75% of Capital

By Philip Coggan

Rutland Trust, the financial services group formerly known as Kellock Trust, has agreed to acquire 75 per cent of **Capital Ventures**, one of the the leading sponsors of Business Expansion Scheme issues.

Rutland is buying the stake from the family interests of Mr Dennis Fredjohn and Mr Peter Underhill. Initial payment will be £1.7m and further consideration is payable, up to a maximum of £3.45m. The Capital Ventures directors are warranting pre-tax profits of not less than £500,000 for the 10 months to December 31.

Initial consideration will be satisfied by £300,000 in cash and by the issue of 3.8m Rutland shares.

David Waller examines RTZ's bid for MK Electric

A search for compatible elements

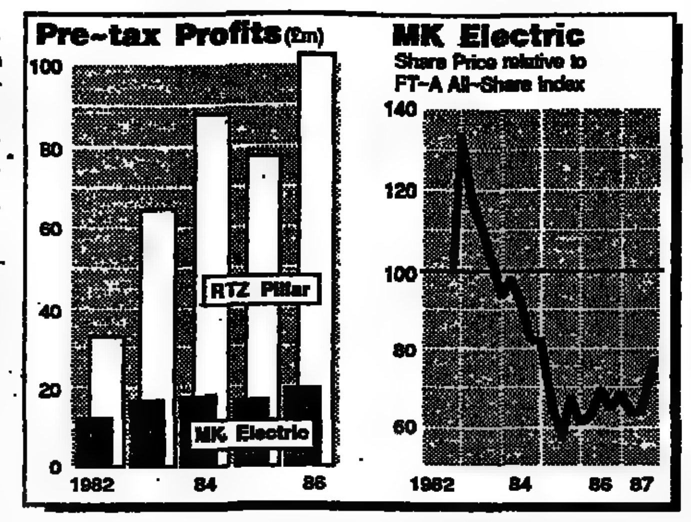
MK ELECTRIC Group has long been the subject of takeover speculation; so long, in fact, that the City had almost given up hope that a bid would materialise and seemed content to classify the UK's largest supplier of electrical wiring devices as a safe, defensive stock, one to hold on to in times of economic malaise.

Yesterday morning, four years of speculation came to an abrupt end as BZW and Hoare Govett joined forces to conduct a dawn raid on MK's shares, swiftly accumulating more than 20 per cent on behalf of RTZ, the mining, energy and industrial group formerly known as Rio-Tinto Zinc. In the event, the identity of the long-awaited bidder took analysts by surprise.

Although the layman knows RTZ for its mining activities, its industrial businesses have grown to the point where they make by far the biggest contribution to group profits. In total, they accounted for approximately 60 per cent of the group's 1986 net attributable profits of £245m; RTZ Pillar, the building products subsidiary acquired in 1970, contributed a quarter of the total.

The bid for MK is consistent with RTZ's declared strategy of adding to its industrial activities by acquisition, and is well timed. At 550p a share, the cash offer is at a 33 per cent premium to MK's shares as they stood on Monday night - but still below their peak of 572p, achieved before the market crash. More pertinent is the fact that RTZ's offer has come when MK is classically vulnerable - poised between a long period of pedestrian growth and a relatively bright future.

The electrical accessories and doorbell manufacturer has delivered a string of lacklustre results; for four years, profits and earnings per share have been more or less static. Taxable profits for 1986-87 amounted to £19.6m, just £2m more than in 1983-84; at 32.3p, earnings per share were just less than they were three years before.



The undistinguished record conceals a period of vigorous management action which has been focused on reducing the company's dependence on oil-blighted markets in the Middle East.

Earlier this year, Mr Roger Leverton, the chief executive appointed three years ago after he left Black & Decker, announced a further reorientation of strategy. He would spend £50m to £60m on acquisitions designed to take MK away from mature markets where organic growth would be more or less impossible, not least because of MK's massive market share.

To date, Mr Leverton has had time to acquire only one company - Esser Sicherheitstechnik, a German fire-detection and alarm-system manufacturer bought for £7.9m in July. But recently released interim figures provided evidence that MK is set to turn the profits corner, acquisitions notwithstanding. Analysts upgraded their forecasts and MK is expected to make £22.5m in the full year.

RTZ contends that MK will fit snugly into its Pillar subsidiary, which makes pre-tax profits of approximately £100m on sales, predominantly to the building sector, of more than £1bn. RTZ's principal arguments are that:

● MK's range of electrical products - which account for over 60 per cent of its turnover - will dovetail with Pillar's business of manufacturing aluminium, steel, glass and plastic products for the construction sector. (Pillar's best-known product is Everest double-glazing.) The customers and the technology are the same, and the products complementary, creating opportunity for added value.

● There will be immediate benefits to be derived from putting MK's Ega and Gilfex subsidiaries together with Pillar's existing plastic-processing businesses.

● In the long term, RTZ will be able to accelerate MK's expansion overseas. Pillar derives about half of its sales abroad, mainly through Indal, its 60 per cent-owned Canadian subsidiary.

On the face of it, the arguments are attractive. Clearly, with assets some 15 times greater than MK, RTZ is in a position to commit substantial financial resources to MK's expansion.

But there are problems. Different standards for electrical accessories mean that it is not a simple matter to sell MK's products in North America, for example. And in the UK, electrical products find their way to building contractors through wholly different distribution channels than do lintels and double-glazing. This will not be changed if MK is absorbed by Pillar, and it is difficult to see RTZ deriving any instant rationalisation benefits from switching to its own distribution capability.

However convincing the arguments, and however profitable MK proves to be in the present year, cash is king under present stock-market circumstances - especially when 550p a share represents 17 times historic earnings. Cash certainly persuaded those who sold their MK shares yesterday.

Ad agencies renegotiate loan facilities

BY NIKKI TAIT AND STEPHEN FIDLER

TWO OF Britain's largest advertising groups, WPP, the marketing services company which won a £561m bid for the substantially larger Madison Avenue-based JWT Group last summer, and **Saatchi and Saatchi** have been renegotiating their loan facilities on to lower interest rates.

WPP, whose share price has been one of the hardest hit by the recent stock market collapse, announced that it had negotiated a new medium-term package to replace the entire $260m facility which it arranged in conjunction with the JWT bid.

A $100m portion is being provided solely by Long-Term Credit Bank of Japan and carries interest at less than 1 per cent over London interbank offered rates. The loan is secured against WPP's freehold property in Tokyo, and the fact that this was non-recourse finance helped WPP to obtain lower interest rates.

A second $160m facility, being underwritten by Warburg, LTCB, Toronto-Dominion Bank, Canadian Imperial Bank of Commerce and Creditanstalt-Bankverein of Austria, carries interest over Libor of 1⅛ per cent. It will be syndicated among other banks.

The $260m financing package replaces the previous facility provided at 2.25 per cent over Libor and arranged by Samuel Montagu (WPP's advisers on the JWT bid) and Citibank. Yesterday, WPP estimated that the total interest saving over a full financial year would amount to approximately $3m. Its shares recovered 30p to 390p.

In addition, by buying interest rate options, WPP has capped for three years the interest rate on the financing, while still being able to benefit if interest rates fall.

Saatchi and Saatchi, meanwhile, confirmed that it had arranged a $450m loan package through Chase Manhattan. The company stressed that this was intended to provide loan facilities at lower cost than at present, and not finance acquisition activity.

However, both the company and its bankers refused to give details of of the new terms. According to Saatchi, the company's total group borrowings - not allowing for cash balances - stood at £172m in October, so the new facility would exceed the current gross debt level.

Drayton Japan rejects AJS unitisation plan

BY NIKKI TAIT

Drayton Japan, the £220m MIM-managed investment trust where New Jersey-based investor, AJS Partners, has a 15.88 per cent stake, yesterday confirmed that it has rejected unitisation proposals put forward by AJS last week.

"The approach," said Drayton Japan, "required the recommendation of the board and included a number of preconditions. The board formed the view that the proposals were not financially in the best interests of all shareholders and that the pre-conditions were unacceptable."

Yesterday Drayton Japan's advisers, County Bank, refused to comment on whether any other reconstruction scheme was under consideration. MIM-Britannia, however, announced that it has now edged its stake in Drayton Japan up from just under 10 per cent to 10.22 per cent.

AJS, meanwhile, describes the response as "not constructive" and says that it is considering the courses of action open to it.

Shares in Drayton Japan yesterday gained a further 38p to 703p.

●A group of seven US investors yesterday declared a 6.95 per cent in another Japanese specialist fund - this time Crescent Japan, managed by Edinburgh Fund Managers. The address given for the seven - four members of the Grace family, Mr John Pinto, Mr James Pinto and Mr James B. Rosewall III - is Suite 3000, 515 Madison Avenue, New York. However, EFM says there has been no direct contact with the new investors and that they have no idea what their interest might be. Shares in Crescent Japan rose 5p to 127p. Managers estimate that the discount, which has been as wide as 25 per cent, has now reduced to around 15 per cent.

Trilion in £1m deal with Mobile Image

By Clay Harris

Trilion, the USM-quoted television production company, is to sell two outside broadcast units and a related tender vehicle for £1.32m to Mobile Image, the outside broadcast subsidiary of NBC, the US television network.

Trilion will receive £1.14m in cash and 180,000 Mobile Image shares, to give it an 18.75 per cent stake in the NBC unit, which will be based in the UK and operate throughout Europe.

The cash proceeds will be applied by Trilion to repay £520,000 in outstanding leasing and hire purchase commitments on the equipment sold and to reduce existing borrowings.

Anglo Irish Bank ahead

Anglo Irish Bank Corporation reported pre-tax profits for the year to the end of September 1987 of I£1.45m (£1.29m) against I£803,000 on gross revenue of £17.44m (£14.88m).

A final payment of 0.1p is proposed making an unchanged total of 3.2p. Earnings per share came out at 3.22p (2.89p).

All-round growth takes Readicut past £5m

BY ALICE RAWSTHORN

Readicut International, textiles group, yesterday announced a 73 per cent increase in pre-tax profits to £5.2m in the first half of its financial year, on turnover ahead by 28 per cent to £81.7m.

Mr Alan Dodman, chief executive, said that all the businesses performed well during the interim period.

All the companies within the group were profitable, apart from Readicut Wool, the original rug-kit business, which made a seasonal loss.

The Readicut group, which is involved both with traditional textiles like carpet manufacturing and high tech non-woven textiles, recently recovered from a difficult period in the early 1980s when it lurched into losses. In the past year or so it has expanded its business with a series of acquisitions including that of Drake Fibres, last autumn.

Readicut's trading profits rose to £5.8m (£3.7m) in the six months to September 30.

It paid £549,000 (£711,000) in interest. The gearing level now stands at 29 per cent but should rise to 40 per cent by the year end. Taxation deducted £1.8m (£1m).

Earnings per share increased to 2.61p (1.92p) and the board declared an interim dividend of 0.38p (0.25p).

Drake, the fibres business acquired last November, contributed profits of about £1.3m. Readicut was investing £3.5m to broaden Drake's production base, enabling it to diversify away from fibres for floorcoverings into new product areas like disposable nappies. In September it added Stonehouse, a worsted spinner, to the fibres division.

The furnishings and household textiles division emerged as one of the best performers, fuelled by the growth of Firth Furnishings which manufactures car carpets. The Firth plant is presently being modernised in a £1.6m expenditure programme.

Readicut has earmarked £11m for capital expenditure in the present financial year.

In addition to the investment at Drake and Firth it intends to increase capacity at Russells Rubber and at the Bloomsburg Carpet plant in the US.

● comment

Readicut has long since shaken off the dubious label of a recovery stock. In a fair world it would now be steeling itself to prove to the City that it can do more than steer troubled businesses back into profit. Instead, through no fault of its own, it faces the threat of a downturn in demand for cars and carpets, its two main markets. The immediate outlook is relatively rosy. The City expects an impressive increase in profits to £14.2m with earnings per share of 7p this year. But the future is less benign. Cars is the chief cause of concern. Firth Furnishings, which has enjoyed an exceptionally buoyant market is the past year or so, almost certainly confronts less clement conditions. Yet the growth from Drake should compensate, especially if its plans for product development come to fruition.

Buoyant demand lifts TMD by 26%

TMD Advertising Holdings, a specialist agency quoted on the USM, maintained its progress in the second half of the year to August 31 with an overall gain of 26 per cent from £702,000 to £885,000 in pre-tax profits after being 21 per cent ahead at the half way mark.

Mr Davis Reich, the chairman, said that the advertising market in the UK had been extremely buoyant over the last year as had the media specialist sector.

He added that TMD Advertising had continued to grow both with its existing clients and also as a result of new business gains and had entered the new year in great shape.

For the group as a whole the new year had started well and the directors looked forward to another excellent year.

Turnover for the past year rose from £43.61m to £51.02m; tax amounted to £336,000 (£298,000) leaving earnings per 5p share at 10.2p (7.6p).

The proposed dividend is raised from 2p to 2.4p.

Alphameric sees recovery ahead after profits tumble

BY CLAY HARRIS

Alphameric, manufacturer of computer keyboards, viewdata terminals and dealing room and data broadcast systems, yesterday predicted a second-half recovery after reporting interim pre-tax profits of £806,000, less than half the £1.73m figure achieved in the comparable period.

Mr Dougal Craig-Wood, chairman, said that full-year profits were on course to exceed the £3.62m achieved in 1986-87. Alphameric underlined its confidence by increasing the interim dividend to 1p (0.75p).

The company had warned of the first-half slide three weeks before the end of the reporting period, the six months to September 30, and its shares barely budged from 280p.

The decline reflected a deferral in deliveries of data broadcast terminals to Coral betting shops and to the Stock Exchange, for its new Market Eye service. Alphameric's new AVT400 advanced viewdata terminal had also faced delays in regulatory clearance.

The two factors reduced turnover by £2m, even though most of the associated costs had already been taken. The result also suffered by comparison with last year's first half, which included large dealing-room orders brought forward ahead of London's Big Bang.

"What we did wrong was to try to start two new products in the same half year," Mr Craig-Wood said. Now that external restraints had been removed, all the delayed sales would come through in the current half.

Order books stood at £13.5m (£8.3m) at November 1, a record level even excluding the catch-up element.

Coral installations had been delayed by problems with installation of broadcast aerials to receive the live racing broadcasts by Satellite Information Services. Alphameric has uncoupled itself from that process by arranging for the temporary selective feed of the SIS audio service over telephone lines.

Alphameric is operating several pilot data-broadcast schemes for potential customers. It expected substantial orders from retailers and travel customers, often parallel with its viewdata systems.

The initial contribution from Real Time Developments, a software house bought in April, had been below expectations, but Ford, Jaguar and a Japanese machine-tool manufacturer had bought its statistical process control systems.

In its original keyboard business, the Andover factory has been completed and the French operation was moving to higher value-added products.

Alphameric is installing new dealing room systems at Baring Securities and NatWest World Money Centre in London, Bank of New Zealand and Jarden Securities in New Zealand, and Bank of Boston's Massachusetts HQ. Enhancements and additions to existing systems account for 25 per cent of sales.

Turnover rose by 34 per cent to £10.3m (£9.9m). Net interest payments of £117,000 compared with receipts of £18,000. Earnings per share fell to 4.14p (7.95p).

● comment

Alphameric was passing out "Don't Panic" buttons yesterday - a recent addition to the "Panic" version with which it routinely demonstrates the "capacitive coupling" of its keys. The City got the message - even though the pre-tax figure was worse than some had expected after the September warning - and full-year forecasts held firm at about £5m, for a prospective p/e of 13. This would imply earnings per share growth slowing to a mere 30 per cent. Alphameric has established a clear lead in data-broadcast systems - a technology with unlimited, but easily conceived - applications. (This does not bode well for the ambitions of late entrants, such as Extel). Alphameric's focus on customising its products to customers' requirements gives it a competitive edge, and may - just - allow references to the "man/machine interface" to be forgiven.

Humberside Electronic in the black

Humberside Electronic Controls, USM-quoted retrofitter and servicer of electronically controlled machine tools, turned last time's pre-tax loss of £350,194 into profits of £16,828 in the year to June 30 1987. Turnover jumped from £1.01m to £1.22m.

After tax of £7,383 (nil), earnings per 7p share amounted to 0.04p compared with last time's loss of 1.63p.

The directors said that the profits were stated after writing off £86,785 of research and development expenses incurred in previous years. No further research and development expenditure had been capitalised in the period under review.

The subsidiary, H. & M. Machinery, was awaiting firm orders amounting to about £1.5m and the directors said that this should give a good workload past the end of the financial year.

Monks assets hit by stock market crash

THE worldwide stock market crash has severely hit assets of **Monks Investment Trust**. As at end-October 1987 net assets per share stood at 264.2p compared with 309.2p at April's year-end and 286.4p a year ago.

Taxable revenue, however, expanded by 26 per cent to £2.43m, in the six months to October.

The tax charge increased from £622,000 to £721,000 leaving earnings per share, boosted by a higher level of deposit income, of 2.2p (1.69p).

The interim dividend is increased to 1.2p (1.1p).

The directors stated that for most of the period under review markets had moved in the Trust's favour, but gains had been wiped out by steep falls which followed Wall Street's 22 per cent fall on October 19. During that month, they added, net assets had fallen from 357.9p per share to 264.2p.

ISSUE NEWS

BY PHILIP COGGAN

Pathfinders reschedules float

Pathfinders, recruitment agency, has at last found its way on to the Unlisted Securities Market. The company, which postponed its float a fortnight ago, is joining the market via a placing which values the group at just under £4.3m.

The company provides temporary and permanent staff for the media-related industries. Clients include Andrew Lloyd Webber's Really Useful Company, advertising agency J Walter Thompson, and television comedy show Spitting Image.

The business was founded in 1969 by Mr Stephen Worth and Ms Andrea Rose, who are now married. Pre-tax profits for the year to March 31, 1987 were £179,000 on turnover of £1.23m.

For the current year, the directors are forecasting pre-tax profits of not less than £420,000. At the placing price of 18p, that puts the shares on a prospective p/e of just under 16. Jacobson Townley is placing 5.25m shares, 22 per cent of the equity.

The bulk of the shares being placed is being sold by existing shareholders; however, the two founders will retain about 73 per cent of the equity.

Video Tape for third market

Video Tape Recording, which provides post-production facilities for the advertising and television industries, is joining the Third Market in a placing which values the group at a little less than £6m.

Stock Beech is placing 1.78m shares, 25.8 per cent of the equity, at 85p each, giving a historic p/e of 12.5 on a notional tax charge of 35 per cent but under 10 on an actual tax basis.

The bulk of the shares being placed are new and the proceeds will be used to pay off borrowings and to purchase new equipment.

VTR was founded three years ago and in the year ended August 31, pre-tax profits rose from £97,000 to £571,000.

Post-production work involves the final stages of editing, including the addition of special effects and computer graphics. About 80 per cent of VTR's turnover is work on TV commercials and the majority of those are shot on film. VTR transfers the developed film on to video tape, where it is much easier and quicker to add sophisticated effects.

●The prospectus states that Mr John Banks, VTR's managing and finance director, previously acted as a director of a number of start-up companies, of which four were wound up, two of them voluntarily.

Australians for London debut

Mayne Nickless, Australian freight, security and computing services group, is obtaining a listing on the London Stock Exchange via an introduction.

The company's shares are already traded on the Australian Stock Exchange and in the US in the form of American Depositary Receipts. In the year ended June 28 1987, the group made pre-tax profits of A$107.7m (£41.3m); on the basis of Friday's trading closing price it had a market capitalisation of A$721.4m (£276m).

Printech Intl. heads for USM

Printech International, an Irish printing company, yesterday announced details of its flotation on the Unlisted Securities Market.

DCC Corporate Finance is placing 3.33m shares at 60 Irish pence each, giving the group a market capitalisation of I£13.27m (£11.8m). Based on the profits forecast of £1.05m for the year ended December 30, the prospective p/e is 10.5.

High-Point moves

High-Point Services, construction consultancy group, is transferring from the Unlisted Securities Market to the main market.

Cosalt up sharply at £1.77m

Cosalt, which reported virtually static profits in 1986, increased its pre-tax figure by 64 per cent from £1.08m to £1.77m in the 52 weeks to August 30 1987.

The Grimsby-based group with interests in ships' chandlery, caravans, refrigeration and air conditioning, increased turnover by 17 per cent from £49.4m to £57.78m.

A final dividend of 3p (2.25p) is proposed making 4.5p (3.5p) for the year. Earnings per 25p share increased 64 per cent from 8.21p to 13.43p on a net basis.

The caravan division had continued its profitable growth, and was showing a substantial improvement. The reorganisation of the ships' chandlery business had commenced last December and the new distribution division was moving steadily towards a position where it would realise its potential.

Within the manufacturing division, the Knox companies in Scotland had further increased output and performance while the acquisition of T. Young (sailmakers) had added to the profitability of the company's marine products division.

The profits breakdown by sector comprised ships chandlery £1.92m (£1.29m), caravans £1.08m (£608,000), refrigeration and air conditioning nil (£82,000), and finance £101,000 (£56,000); continuing activities amounted to £3.1m (£2m) but discontinued activities incurred a loss of £221,000 (nil).

Tax amounted to £298,000 (£277,000) and there was an extraordinary debit of £222,000 (£227,000 credit).

Cropper rises but warns on second half

A combination of a strong order book, improved production efficiency and stable raw material costs helped James Cropper, paper manufacturer, to a 13 per cent increase from £952,000 to £1.08m in pre-tax profits for the half year to September 26. Comparative figures have been restated.

The directors issued a note of caution, however, on prospects for the remainder of the year. They said that it would be difficult to sustain in the second half the improved margins of the past six months, as pulp prices were rising at present and the order position weakening. There was a good chance that the second half would not be as good as the first.

Turnover in the period rose from £13.7m to £15.76m and the trading profit was up from £1.22m to £1.49m. Interest was £418,000 (£268,000) and tax took £81,000 (£13,000) leaving earnings to emerge at 12.3p (11.6p).

The interim dividend is increased by 0.12p to 0.675p.

The liability to corporation tax on the full year's results to March 31 1988 was expected to be reduced by utilising advance corporation tax

Delmar advances to £161,000

FOLLOWING **Delmar Group's** boost in taxable profits from £150,688 to £160,690 in the six months to September 30, the directors said that there was every reason to believe that final profits would again show a satisfactory increase.

Turnover at this USM-quoted fabricator and extruder of rubber and plastics was hoisted from £2.24m to £2.72m. After tax of £56,242 (£52,740) earnings per ordinary share rose from 1.4p to 1.5p. There were extraordinary charges of £13,966 (nil).

Comparative figures have been restated to include Weirbrook, producer of polythene lagging for pipes, which Delmar acquired for £650,000 last December.

Directors said that last year's start-up venture, Delmar Alpha-Tech, has progressed well and production capacity increased. The acquisition of Weirbrook and the addition of Jetlag to the Climastube pipe-insulation range has increased the seasonal nature of the business.

In the year to March 31 1987, Delmar paid a single dividend of 2.15p (2p).

Glamar up 30%

Glamar Group, marketer and distributor of hosiery products which obtained a market listing in July, hoisted taxable profits up by 30 per cent from £395,000 to £514,000 in the 26 weeks to September 26. Turnover rose from £2.26m last time to £2.99m.

After tax of £180,000 (£144,000) earnings per share rose from 5.02p to 5.65p.

BOARD MEETINGS

Carclo stake in Bridon

BY NIKKI TAIT

SHARES in **Bridon**, the Doncaster-based engineer and wire rope manufacturer, jumped 20p to 125p yesterday on news that **Carclo Engineering** has acquired a 5.1 per cent stake.

Carclo refused to comment on the purchase beyond saying that it represented "a trade investment" and that the company was anxious to preserve "good relations" with Bridon. It has, however, been an acquisitive company in the recent past.

According to Bridon's chairman, Sir Christopher Laidlaw, the two companies did meet ahead of the stockmarket collapse - "They came and talked to us about areas of common interest," he commented yesterday. However, Bridon is not thought to have been enthusiastic about the possibilities at the current time, and in early November Sir Christopher said he believed the bulk of the Carclo stake was picked up. Bridon itself first disclosed a 4.9 per cent Carclo interest yesterday - on the grounds that the information could be price-sensitive - but this was later revised to 5.1 per cent.

California triumphs over fruit flies

By Louise Kehoe in San Francisco

CALIFORNIAN AGRICULTURAL officials have declared a victory over the invading Mediterranean fruit fly, at least for one more year. The latest infestation, discovered in Los Angeles this summer has been successfully eradicated they say. The arrival of the "medfly" has become an annual scare for California fruit growers ever since a major infestation in 1980/81 when crop damage was estimated at $70m and the cost of eradication efforts soared to over $100m. Known as the "super pest," the Mediterranean fruit fly is particularly dangerous to agriculture because it preys on more than 200 varieties of produce. It reproduces quickly and can survive in a range of climates.

Birth Control

Over the past few years, however, state and local agriculture officials seem to have found the secret to getting rid of the damaging pests. By releasing hundreds of millions of sterilised male specimens authorities have, in effect, imposed birth control upon the flies.

The Medflies literally breed themselves out of existence.

Combined with a good dose of pesticide, the scheme has proved very effective. According to Los Angeles County agricultural commission officials, no fertile flies have been trapped since early September. To ensure the success of the programme a final release of sterile flies was scheduled for this week.

Pesticide

By using the infertile flies, officials said that they had been able to avoid repeated aerial pesticide spraying. In 1980/81, residential areas of both North and Southern California were repeatedly sprayed with malathion to kill off the medflies, raising health and safety concerns. In addition to the cost of spraying, the state was also charged with hundreds of claims for damage to the paint on cars and trucks that was damaged by the spraying.

This year, however, two applications of malathion combined with the release of 400m sterile flies has apparently wiped out the threat to fruit growers.

According to officials, the programme has cost a total of $2m, a fraction of the bills for earlier eradication efforts.

EC farm reform may rely on Foreign Ministers

BY TIM DICKSON IN BRUSSELS

"IT DIDN'T satisfy anybody. Everyone who was given a little present immediately wanted something more."

That was how one senior diplomat yesterday summed up the vain attempt by Denmark, currently in the chair of the EC Farm Council, to reach a compromise on the latest key proposals for Common Agricultural Policy reform being discussed this week in Brussels.

By last night when Farm Ministers adjourned their discussions for 24 hours, it was clear that the deadlock on a key part of the package - automatic price cuts for cereals and oilseeds producers once certain output thresholds had been breached - is unlikely to be broken without the intervention of the EC's Foreign Ministers who meet on Sunday and Monday to finalise preparations for next week's Copenhagen Summit.

Farm Ministers will reconvene tonight in yet another attempt to resolve their difference. Despite limited agreement on some of the peripheral products and issues in the Commission's so-called stabilisers package, chances of a comprehensive deal this week look distinctly slim.

The key difference is between Britain, the Netherlands and the European Commission, who continue to insist on significant price cuts for cereals and oilseeds, and France and West Germany, who are at least united in opposing what is currently on the table, but for different reasons.

The stance of Mr Ignaz Kiechle, the West German Farm Minister, has been seen as the main obstacle to reform. While there is no evidence that he has changed his tough opposition to any price cuts for cereals, indications are that he has not made a major contribution to the debate in the last couple of days.

Instead the running appears to have been made by Mr Francois Guillaume, the French Farm Minister, who has consistently argued in the Council for application of an alternative "stabiliser" system which would take in all arable crops (cereals, oilseeds, proteins, and sugar).

The French idea - self-confessedly extremely complex - is that there would be a production target for this whole sector, as opposed to individual targets for each crop, and that farmers would be penalised automatically for any increase in productivity or yield during the course of the year. This would be done by an additional co-responsibility levy (or producer tax), rather than by price cuts which would only be administered in the following campaign after decisions taken by Farm Ministers in the annual price negotiations.

The French plan has clearly attracted support from West Germany and certain smaller countries - just how much is not clear - but last night it was bitterly attacked by Britain's Junior Farm Minister, Mr John Gummer. He produced figures which he claimed showed that the vast majority of the increase in rapeseed, sunflower and soyabean production was due to an expansion in acreage (not productivity) and that the French plan would, thus, have been ineffective in controlling support costs.

Britain's intention today will be to try to push the French idea off the table and encourage the Danish Presidency to concentrate on the original Commission proposals for a product-by-product approach.

Weather boosts Christmas tree crop

By Frank Gray

CHRISTMAS SHOPPERS will have their pick of a harvest of more than 4.25m freshly cut spruce, pine and fir trees, as the countdown to the Yuletide holidays begins, the British Christmas Tree Growers Association announced yesterday.

Wet weather has been a boon to growers on both sides of the channel and this year's UK crop of 3m will be slightly larger than 1986's. The balance will be imported, largely from Belgium, Denmark and The Netherlands. Discerning customers will probably find some Soviet-grown trees among the Dutch conifers hitting the UK market, Association chairman Maj Gen Tony Richardson pointed out.

Potted trees will be in short supply, however, because of the high cost of uprooting and repotting trees from sodden soil. Some 50,000 to 100,000 trees growing in the southeast were lost in the October gales, primarily because of the burning effects salty rain on tree branches.

The Association is confident that it has turned the corner in the long battle against synthetic trees. The price of fresh trees will only be marginally higher than last year and scarcely changed from earlier this decade. The average price of a six foot Norwegian spruce or Scotch pine will be under £10, or about £1.50 a foot, while the noble fir, described as the "Rolls-Royce" of Christmas trees and now only grown in small quantities, will cost about £3 per foot.

This provides a strong price advantage over synthetic trees, whose basic price at high street shops is now around the £25 and often over £125 at up-market Greater London outlets such as Selfridges, Harrods and Bentalls.

Brazil may cancel sugar sales

BY ANN CHARTERS IN SAO PAULO

THE NEW president of Brazil's Sugar and Alcohol Institute (IAA), Mr Nilson Miranda Motta, says that recent sugar export contracts concluded directly between sugar co-operatives and overseas importers with IAA approval may be cancelled if they threaten to cause "substantial foreign exchange losses."

He issued the warning as he took over IAA operations in the wake of financial irregularities at the Institute that caused the removal of the previous president last Friday.

According to published reports, the IAA gave a few sugar co-operatives the right to export directly with the assurance that they would be reimbursed if they sold sugar abroad below domestic prices. In addition, 90 per cent of the transportation costs, loading and storage costs within Brazil were to be paid for by the IAA.

Although the IAA has been accused of ineptitude in the past in retaining its export monopoly, this scandal could provide the impetus for change some sugar industrialists have been seeking. According to one report of the IAA's poor handling of exports, Brazilian sugar was sold abroad at prices 12 per cent below the average international price every year for the last ten years.

That meant losing an average $70m annually, according to Copersucar, one of Brazil's largest sugar and alcohol co-operatives. Copersucar president Mr Werther Annichinno said after this incident the IAA would "never be the same again."

One newspaper report linked several sugar mills in Rio de Janeiro and one in Sao Paulo state with the contracts. The past president of the IAA, Mr Jose Ribeiro Toledo, was quoted as saying that the contracts were intended to improve the mills' financial conditions.

In London, traders confirmed that Brazil seemed unlikely to be a seller of raw or white sugar in the immediate future because of the scandal. Some 100,000 to 150,000 tonnes of Brazilian raws were thought to be set for offer on the London market this week, but now a sale will almost certainly not take place, traders said.

Sweden signs Soviet farm accord

BY SARA WEBB IN STOCKHOLM

SWEDEN HAS signed a letter of intent with the Soviet Union to supply equipment and technology in the agricultural and related industrial area, which officials hope will lead to firm contracts worth between SKr500m and SKr1bn ($46.2m and $92.6m).

The agreement, signed during the recent visit by the Soviet Agricultural Minister Mr Murachovsky, could lead to contracts for such companies as Alfa-Laval.

Milk case setback for Britain

BY TIM DICKSON

THE EUROPEAN Commission's legal challenge to Britain's ban on imported pasteurised milk imports was supported yesterday by a key opinion delivered in the European Court of Justice.

Mr Jean Mischot, Advocate General of the Court, did not accept Britain's arguments that the prohibition was necessary to protect consumers from lower health standards on the Continent. Importers should be given a chance to show that their products conform to the UK's requirements, possibly through a certification system negotiated with other member states, he added.

Mr Mischot's opinion is not the last word, and while his views are generally taken into account in the final judgment, they can be overruled.

The situation is complicated by an EC directive on health standards which will come into force in January, 1989, at which point the UK already acknowledges it will have to overturn its ban.

Mr Mischot said one solution was for Britain to implement this with the relevant safeguards immediately.

The Commission argued that the British ban - imposed in 1982 - was "wholly disproportionate" to the objective of protecting public health.

WEEKLY METALS

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 2,260-2,300 (same).

BISMUTH: European free market, min 99.99 per cent, $ per lb, tonne lots in warehouse 4.40-4.65 (4.45-4.65).

CADMIUM: European free market, min 99.95 per cent, $ per lb, in warehouse, ingots 2.90-3.00 (same), sticks 2.90-3.00 (same).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse 6.45-6.70 (6.40-6.65).

MERCURY: European free market, min 99.99 per cent, $ per flask, in warehouse, 290-300 (293-303).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse 2.83-2.90 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb in warehouse, 6.80-7.05 (6.50-6.75).

TUNGSTEN ORE: European free market, standard min 65 per cent, $ per tonne unit WO_3, cif, 47-57 (46-56).

VANADIUM: European free market min 98 per cent V_2O_5, other sources, $ per lb V_2O_5, cif 2.80-2.90 (same).

URANIUM: Nuexco exchange value, $ per lb U_3O_8, 16.75 (same).

Moscow buying Australian meat from NZ

By Dai Hayward in Wellington

THE NEW Zealand Dairy Board, which has a long-term contract to supply mutton and butter to the Soviet Union, has had to buy Australian mutton to fulfil its contract because no New Zealand supplies are available.

This will be the first Australian mutton sold in the Soviet Union since 1981, according to Mr Bruce Gaffikin, a Dairy Board official.

Recently the board also sold 14,000 tons of Australian butter to the Soviet Union.

India heads for tea production record

BY P.C. MAHANTI IN CALCUTTA

INDIAN TEA production could be heading towards a new record this year, judging by the latest statistics issued by the Tea Board.

Output to September totalled 493m kgs, up from 459.3m in the corresponding period of 1986 and only 1m kgs behind the comparable figure in 1985, when the country's production over the whole year reached its highest-ever level of 657m kgs. With weather in the tea-growing areas, particularly north-east India, continuing favourable hopes are high that the total crop could actually better the 1985 figure.

Production in 1986 was only 620m kgs, a sharp set-back compared with the previous year's level. The drop was mainly due to bad weather, especially drought conditions in the north.

Drought has been causing production setbacks at regular intervals in all the tea growing areas both north and south. The government has asked the tea gardens to expand irrigation facilities on an emergency basis, promising them the necessary financial aid, and the industry has already initiated a programme.

A major worry for the industry is whether domestic demand will continue its recent growth. In 1986 it came up to 420m kgs, but both the tea trade and the producers fear that there might be a recession in internal offtake this year. They blame the drought conditions which have affected the livelihoods of millions of people in tea-drinking areas (as against tea-producing areas) and threatened to cause a major setback in agricultural output. If there is a fall in domestic demand and this year's production sets a new record the country could be seeking export outlets for a big surplus.

The government has already pledged that exports this year, and in the future, will be as free from restrictions as possible. But the industry will not feel completely reassured until a long term tea export policy is announced. It insists that this is a prerequisite for the production drive which it is being urged to set in train. The government is calling for a growth rate that would double the country's output by the end of the century.

The industry is also concerned that exports, which have ensured its viability through good years and bad, should not have to take a back seat to internal consumption. The Tea Board says that exports so far have been "satisfactory" but gives no definite figures. The country has been exporting 220m kgs on an average per year and in 1986/87 the figure was close to that level. This year, however, the industry wants to be assured that if it becomes necessary to export more it will be given the necessary facilities and encouragement.

New Delhi has maintained a studied silence on this year's export target. It has only been asking the industry to promote value-added exports and promising further incentives to that end. This highly competitive field is yet to open out more promising outlets for India than in the last two years, when it actually lost some ground to Sri Lanka and other competitors.

New Delhi seems more preoccupied, however, with the industry's long term problems of growth and development. A high-powered special committee has been set up with the Tea Board chairman at its head and all leadinmg producer bodies represented. The terms of reference include such matters as the need for finance and additional land and the promotion of tea consumption generically.

India is already the world's largest tea producing and consuming country and the government is anxious to maintain this pre-eminent position. Meanwhile commercial banks and the National Bank for Rural and Agricultural Development, the specific financial body for agro-industries, have been asked to provide finance more adequately to the gardens for their essential short term needs, like extension of irrigation and drainage facilities, extension and replanting programmes and regular provision of inputs like fertilisers and herbicides.

The government, for its part, has announced an interest subsidy scheme for borrowing by the gardens from banks and other financial institutions for all development purposes, particularly for irrigation and drainage facilities and for replanting and extension planting programmes.

UK oilseed crushers enjoy bumper year

BY JOHN BUCKLEY

THE UK is processing record quantities of rapeseed, and this season's crush could hit the 1m tonne mark for the first time, says Mr Bob Peacock, senior oilseed trader with Bunge, the grain shipper.

With lower seed prices and reduced competition in product markets, crushers are experiencing more profitable conditions, he told a trade seminar this week.

Product disposal is being helped by the withdrawal of competition of cheap Chinese oilmeals from the market, thousands of tonnes of which had been dumped in the UK last year. Compound feeds for ruminants are now using up to 20 per cent rapemeal, and the price boost in soyameal prices following the US sale of 1.3m tonnes to the Soviet Union promises continuing good offtake, he said.

He cautioned that the boom in crushing meant wider outlets will be needed for product markets. The EC rapeseed crop, at over 6m tonnes, is larger than expected, and a Community-wide surplus of 750,000 tonnes now existed. It was noted that UK demand for rapeoil was expanding in food products but was competing now with EC-produced sunflower oil in retail bottled outlets.

Mr Don Walton, senior grain trader at Kenneth Wilson, predicted that the UK wheat crop would only be around 11m tonnes and barley 9m tonnes compared with recent Ministry of Agriculture estimates of 12m and 9.2m tonnes respectively. This was likely to lead to a sharp drawdown of intervention stocks despite an easing of exports.

WORLD COMMODITIES PRICES

LONDON MARKETS

THE LONDON Metal Exchange copper market went from strength to strength yesterday with forward prices reaching 2¾-year highs in sterling terms and fresh 7-year highs in dollar terms. Having reversed the downturn of late last week with a £46.50 rise on Monday cash grade A copper advanced another £52 to £1,541 a tonne, only a few pounds short of the all-time high reached two weeks ago. Dealers attributed the market's renewed strength to bullish chart patterns and continuing concern about the availability of metal for immediate delivery. Supply worries were highlighted by news of a further 3,000 tonnes fall in the already depleted stocks held on the New York's Comex, they added. London cocoa futures also rose yesterday, though on a much more modest scale and from a much lower base.

SPOT MARKETS

Crude oil (per barrel FOB January)		+ or -
Dubai	$16.74-6.78	-0.025
Brent Blend	$17.87-7.93y	-0.04
W.T.I.(1 pm est)	$18.78-8.83	
Oil products (NWE prompt delivery per tonne CIF September)		+ or -
Premium Gasoline	$178-180	
Gas Oil	$160-162	+1
Heavy Fuel Oil	$86-87	+5
Naphtha	$151-153	+1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♦	$473.75	+3.50
Silver (per troy oz)♦	686c	+15
Platinum (per troy oz)	$505.25	+11.50
Palladium (per troy oz)	$118.00	+2.00
Aluminium (free market)	$1700	+50
Copper (US Producer)	114½-17c	-½
Lead (US Producer)	42.00c	
Nickel (free market)	282c	+2
Tin (European free market)	£3920	-20
Tin (Kuala Lumpur market)	17.22r	-0.08
Tin (New York)	323.00c	-1.50
Zinc (Euro. Prod. Price)	$820-870	
Zinc (US Prime Western)	$44.375	
Cattle (live weight)†	100.96p	+1.96*
Sheep (dead weight)†	192.07p	+3.92*
Pigs (live weight)†	70.70p	-1.80*
London daily sugar (raw)	$192.80w	-1.60
London daily sugar (white)	$200.50w	-1.90
Tate and Lyle export price	£214.50	+0.50
Barley (English feed)	£109.50y	
Maize (US No. 3 yellow)	£134.50	-0.80
Wheat (US Dark Northern)	£91.25y	+1.00
Rubber (spot)♥	62.50p	+0.75
Rubber (Jan) ♥	64.00p	+0.75
Rubber (Feb) ♥	64.25p	
Rubber (KL RSS No 1)	261.00m	+0.50
Coconut oil (Philippines)§	$482.50s	
Palm Oil (Malaysian)§	$380.00	
Copra (Philippines)§	$325.00y	
Soyabeans (US)	$143.50	+0.50
Cotton "A" Index	76.15c	+0.45
Wooltops (64s Super)	493p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. w-Dec/Jan. s-Jan/Feb. x-Nov/Dec.y-Dec. † Meat Commission average fatstock prices. * change from a week ago. ♥ London physical market. § CIF Rotterdam. ♦ Bullion market close. m-Malaysian/Singapore cents/kg

COCOA £/tonne

	Close	Previous	High/Low
Dec	1119	1088	1123 1107
Mar	1153	1122	1155 1138
May	1171	1148	1175 1156
Jly	1192	1165	1194 1174
Sep	1208	1184	1210 1197
Dec	1237	1209	1238 1225
Mar	1261	1234	1260 1250

Turnover: 8991 (5884) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for November 24: 1471.58 (1447.84) .10 day average for November 25: 1436.82 (1434.85).

COFFEE £/tonne

	Close	Previous	High/Low
Nov	1235	1230	1238 1225
Jan	1268	1282	1273 1258
Mar	1289	1283	1295 1281
May	1310	1305	1312 1302
Jly	1328	1330	1334 1323
Sep	1354	1350	1354 1352
Nov	1375	1375	

Turnover: 1989 (1203) lots of 5 tonnes
ICO indicator prices (US cents per pound) for November 21 :Comp. daily 116.72 (118.88) ; 15 day average 115.52 (115.29).

SUGAR ($ per tonne)

Raw	Close	Previous	High/Low
Dec	170.80	169.40	171.00 168.20
Mar	173.80	173.60	176.40 171.80
May	174.80	174.40	175.60 173.00
Aug	175.80	175.00	176.40 174.00
Oct	176.80	176.40	178.00 175.00
Dec	180.00	179.20	
Mar	182.80	183.80	
White	**Close**	**Previous**	**High/Low**
Mar	206.80	207.00	207.00 205.00
May	210.80	211.00	210.80 209.50
Aug	215.50	215.90	215.40 214.00
Oct	216.50	216.00	215.50 214.00
Dec	217.00	217.00	218.00
Mar	223.00	223.00	220.00
May	226.00	226.00	

Turnover: Raw 3087 (2216) lots of 50 tonnes; White 1228 (1507).
Paris- White (FFr per tonne):Mar 1179, May 1205, Aug 1250, Oct 1260, Dec 1260, Mar 1290.

GAS OIL $/tonne

	Close	Previous	High/Low
Dec	162.00	160.50	162.25 160.25
Jan	161.75	160.25	162.00 159.75
Feb	159.75	158.50	161.00 159.00
Mar	156.00	154.50	156.75 156.00
Apr	154.00	153.00	155.00 154.00

Turnover: 4320 (6004) lots of 100 tonnes

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Jan	114.35	113.95	114.50 113.60
Mar	116.40	115.90	116.45 115.50
May	118.50	117.90	118.50 117.85
Jly	121.15	120.75	121.15 120.25
Sep	101.75	101.75	
Nov	103.50	103.70	103.50
Barley	**Close**	**Previous**	**High/Low**
Jan	107.45	106.90	107.45 106.70
Mar	109.25	108.80	109.25 108.95
May	111.00	110.55	111.00 110.65
Sep	98.00	98.00	
Nov	100.00	100.00	

Turnover: Wheat 182 (150) , Barley 59 (58) lots of 100 tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 500 tonne
Cash	1705-15	1690-710		1700-10		
3 months	1665-75	1650-70	1642/1632	1650-70	1668-75	2,221 lots
Aluminium, 99.5% purity (£ per tonne)						Ring turnover 13,950 tonne
Cash	950-2	934-5	958/957	955-6		
3 months	924-5	906-7	927/905	926.5-27	924-5	58,995 lots
Copper, Grade A (£ per tonne)						Ring turnover 32,975 tonne
Cash	1540-2	1485-90	1540/1515	1514-5		
3 months	1297-8	1264-5	1301/1277	1289-90	1299-300	78,295 lots
Copper, Standard (£ per tonne)						Ring turnover 0 tonne
Cash	1460-5	1420-30		1465-70		
3 months	1280-5	1240-60		1265-80		29 lots
Silver (US cents/fine ounce)						Ring turnover 0 ozs
Cash	685-6	669-71		698-9		
3 months	697-700	680-3		697-700	695-700	595 lots
Lead (£ per tonne)						Ring turnover 13,575 tonne
Cash	367-8	361-3	373	372-2.5		
3 months	348-9	343.5-4	352/347	351.5-52	349-9.5	12,719 lots
Nickel (£ per tonne)						Ring turnover 2,076 tonne
Cash	3400-10	3365-75	3395/3380	3385-90		
3 months	3369-70	3335-45	3390/3355	3365-6	3360-80	8,082 lots
Zinc (£ per tonne)						Ring turnover 7,450 tonne
Cash	485.5-6.5	481-3		484.5-6.5		
3 months	485-6.5	479-80	488/484	484.5-5.5	485-6	15,139 lots

POTATOES £/tonne

	Close	Previous	High/Low
Feb	102.50	100.00	
Mar	91.00	91.00	
Apr	150.80	150.80	151.00 149.80
May	164.00	164.60	164.50 163.90
Nov	82.50	75.00	
Feb	94.50	90.00	

Turnover: 196 (400) lots of 100 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Dec	144.00	144.00	
Feb	141.50	142.50	142.50 142.00
Apr	136.80	139.00	136.40
Jun	128.50	129.00	
Aug	126.50	126.00	
Oct	128.00	127.50	
Dec	130.00	130.00	

Turnover: 40 (124) lots of 100 tonnes.

FREIGHT FUTURES £/index point

	Close	Previous	High/Low
Jan	1219.0	1200.0	1219.0 1198.0
Apr	1267.5	1247.5	1268.0 1247.0
Jly	1130.0	1117.5	
BFI	1159.0	1153.5	

Turnover: 130 (88)

JUTE
November/December c and f Dundee BTC $570, BWC $560, BTD $495, BWD $485; c and f Antwerp BTC $540, BWC $530, BWD $475, BTD $485.
COTTON
Liverpool - Spot and shipment sales for the week ending November 20 amounted to 1227 tonnes, against 472 tonnes the previous week. Extensive purchases were recorded in most qualities. Widespread interest was shown in Russian, Chinese, African and American styles.

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	473½-474	266-267
Opening	475-476½	267-267½
Morning fix	476.95	266.432
Afternoon fix	475.00	267.079
Day's high	477½-477¾	
Day's low	473½-474	
Coins	**$ price**	**£ equivalent**
US Eagle	487½-492½	274½-278
Mapleleaf	487½-492½	274½-278
Britannia	487½-492½	274½-278
Krugerrand	473-476	266¼-268¾
1/2 Krug	247-258	139¼-144½
1/4 Krug	123-131	69½-74
Angel		
1/10 Angel		
New Sov.	111¼-112¼	62½-63½
Old Sov.	111¼-112¼	62½-63½
Noble Plat	523-533	293¼-298¾

Silver fix	p/fine oz	US cts equiv
Spot	386.35	692.25
3 months	398.10	705.25
6 months	406.30	717.45
12 months	424.80	746.95

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.5%)	Calls		Puts	
Strike price $ tonne	Jan	Mar	Jan	Mar
1625		89	-	
1675			69	
Copper (Grade A)	**Calls**		**Puts**	
Strike price $ tonne	Jan	Mar	Jan	Mar
2250		217		
2400	161			
Copper (Grade A)	**Calls**		**Puts**	
Strike price £ tonne	Jan	Mar	Jan	Mar
1375			52	

US MARKETS

Precious metals opened higher on follow-through buying, reports Drexel Burnham Lambert. Continued trade buying of the December contract against forward positions helped steady the markets before profit-taking and local selling eased prices. Copper saw fundamentals reassert themselves as fears of declining stocks led to short-covering which touched off stops as the market rallied sharply again. Crude oil rallied on fund buying and short-covering but met resistance at the highs from light trade and commission house selling. Coffee fell in early trading but recovered on dollar weakness. Cocoa finished higher on short-covering, industry interest and East European price-fix buying. Sugar eased on commission house selling but closed higher following trade buying. Cotton was higher on trade buying. Cattle futures were mixed, spread activity being the main feature despite higher cash prices. Hogs and pork bellies were higher on the day reflecting firmer cash prices and despite fears of a bearish cold storage report. Wheat was firm on confirmation of buying by Morocco and interest from China and the Soviet Union

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low
Nov	474.9	475.4	0 0
Dec	475.4	476.9	476.2 473.4
Jan	478.5	479.1	0 0
Feb	481.4	482.1	484.8 479.5
Apr	487.1	487.8	490.2 485.3
Jun	492.9	493.6	495.5 491.2
Aug	498.9	499.8	500.5 495.9

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low
Jan	168.75	167.50	169.40 168.20
Mar	168.55	166.65	168.70 168.25
May	168.50	166.25	168.50 166.05
Jly	168.25	166.25	0 0
Sep	168.00	166.50	168.00 168.00
Jan	159.75	159.50	0 0
Mar	159.75	159.50	0 0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low
Nov	113.55	108.30	112.30 112.30
Dec	111.38	106.40	112.00 113.20
Jan	107.90	103.60	105.00 105.00
Mar	103.30	98.90	103.40 100.70
May	96.20	92.40	96.60 93.20
Jly	92.90	89.00	93.10 90.00
Sep	91.60	87.70	90.50 89.95
Dec	90.60	86.30	92.00 87.80
Jan	90.50	86.80	0 0
Mar	90.30	86.40	91.50 89.70

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low
Dec	1877	1858	1880 1870
Mar	1883	1884	1895 1872
May	1910	1894	1913 1901
Jly	1941	1920	1943 1932
Sep	1971	1949	1969 1969
Dec	2005	1985	2005 2005
Mar	2033	2013	2040 2030

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low
Dec	128.90	127.40	127.00 128.10
Mar	130.86	130.80	131.00 129.75
May	132.60	132.56	132.85 132.00
Jly	134.00	134.13	134.25 133.30
Sep	135.63	135.75	0 0
Dec	136.75	137.38	137.00 137.00
Mar	137.57	138.50	0 0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low
Dec	505.0	509.4	512.0 512.0
Jan	509.0	511.7	514.5 506.0
Apr	517.1	519.8	521.5 515.0
Jly	525.1	527.6	528.5 524.0
Oct	533.1	535.6	536.0 535.5
Jan	541.6	544.1	0 0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low
Nov	691.5	694.2	687.0 687.0
Dec	692.0	695.0	701.0 681.0
Jan	696.5	699.5	0 0
Mar	706.0	709.2	718.0 695.0
May	715.2	718.6	725.0 705.0
Jly	724.4	728.0	732.0 715.0
Sep	734.0	737.9	741.0 727.5
Dec	748.8	753.1	757.0 746.0
Jan	753.4	757.9	0 0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low
Jan	7.26	7.26	7.26 7.24
Mar	7.75	7.72	7.80 7.63
May	7.79	7.76	7.84 7.70
Jly	7.82	7.81	7.85 7.74
Oct	7.88	7.86	7.93 7.80
Jan	8.03	8.03	0 0
Mar	8.22	8.19	8.17 8.17

COTTON 50,000; cents/lbs

	Close	Previous	High/Low
Dec	70.85	68.98	71.00 69.50
Mar	71.23	69.67	71.40 70.10
May	71.50	70.23	71.70 70.80
Jly	71.80	70.40	71.80 70.80
Oct	65.50	64.90	65.50 65.50
Dec	64.10	63.50	64.30 63.75
Mar	0	64.60	0 0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low
Jan	18.80	18.95	18.98 18.75
Feb	18.68	18.82	18.84 18.64
Mar	18.64	18.77	18.76 18.59
Apr	18.60	18.72	18.70 18.55
May	18.55	18.63	18.62 18.50
Jun	18.42	18.48	18.44 18.40
Jul	18.40	18.47	18.50 18.40
Aug	18.45	18.36	18.45 18.40
Sep	18.30	18.30	18.30 18.30
Oct	18.25	18.30	18.25 18.25

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low
Dec	55.45	55.85	56.15 55.45
Jan	54.80	55.25	55.45 54.80
Feb	54.20	54.60	54.75 54.20
Mar	52.10	52.55	52.60 52.10
Apr	50.30	50.60	50.60 50.30
May	49.10	49.70	49.55 49.25
Jun	48.75	49.30	48.75 48.75
Jul	48.75	49.50	48.75 48.75

INDICES

REUTERS (Base: September 18 1931 = 100)

Nov 23	Nov 20	mnth ago	yr ago
1696.9	1700.1	1669.0	1614.9

DOW JONES (Base: September 18 1931 = 100)

Spot	129.72	128.33		118.53
Futures	133.13	131.67		117.39

Chicago

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low
Dec	18.03	17.75	18.05 17.69
Jan	18.23	17.96	18.25 17.90
Mar	18.61	18.30	18.65 18.27
May	18.88	18.60	18.93 18.58
Jly	19.10	18.85	19.15 18.84
Aug	19.12	18.95	19.20 18.90
Sep	19.20	19.00	19.25 18.95
Oct	19.15	19.02	19.35 19.15
Dec	19.38	19.20	19.40 19.07

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low
Dec	212.7	208.6	213.0 205.4
Jan	203.8	200.1	204.0 197.0
Mar	196.7	193.7	197.0 191.1
May	189.7	187.2	190.0 185.0
Jly	186.2	184.0	186.5 182.0
Aug	185.5	183.2	185.5 181.5
Sep	184.0	182.0	185.0 180.5
Oct	181.0	180.0	181.0 179.0
Dec	180.5	180.0	182.0 178.5

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low
Dec	305/0	302/4	306/0 302/0
Mar	315/0	310/6	315/0 311/2
May	309/6	305/0	309/6 305/0
Jly	297/6	292/0	298/0 293/4
Sep	300/4	297/0	301/0 298/0
Dec	308/4	307/0	309/4 307/0

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low
Dec	44.97	44.47	45.00 44.30
Feb	44.25	43.55	44.45 43.55
Apr	40.05	39.60	40.20 39.40
Jun	42.57	42.30	42.75 42.20
Jly	43.10	42.80	43.25 42.70
Aug	42.02	41.67	42.20 41.60
Oct	39.05	38.82	39.15 38.85
Dec	39.80	39.60	39.85 39.65

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low
Dec	187/2	187/0	187/2 185/6
Mar	193/2	192/4	193/0 191/4
May	198/2	197/0	198/2 196/2
Jly	202/2	200/4	202/2 200/2
Sep	200/0	198/2	200/0 198/0
Dec	195/6	194/2	196/0 194/0
Mar	201/2	200/4	201/2 201/2

PORK BELLIES 38,000 lbs; cents/lb

	Close	Previous	High/Low
Feb	56.87	55.60	57.00 55.22
Mar	56.30	55.27	56.55 55.10
May	57.60	56.20	57.60 55.80
Jly	56.95	56.50	57.00 56.20

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low
Jan	597/0	589/2	597/4 583/2
Mar	604/4	597/0	605/0 591/0
May	608/6	600/4	609/0 595/4
Jly	609/6	601/6	610/0 597/0
Aug	608/4	599/4	609/4 595/0
Sep	592/4	587/6	595/4 583/4
Nov	590/2	584/6	593/0 580/4
Jan	596/0	590/4	596/0 587/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low
Dec	66.37	66.85	66.75 66.25
Feb	63.10	63.27	63.20 62.67
Apr	65.15	64.95	65.25 64.85
Jun	65.10	64.87	65.30 64.55
Aug	62.92	62.77	63.25 62.65
Oct	62.20	61.90	62.60 61.90
Dec	63.70	63.40	64.00 63.30

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar given confidence boost

DOLLAR CONFIDENCE took an upward turn yesterday after a cut in several money market intervention rates in Europe. The West German Bundesbank shaved a quarter of a point from its sale and repurchase tender rate to 3.25 p.c while the Bank of France reduced its intervention rate to 8 p.c. from 8¼ p.c. In addition the Dutch central bank cut its discount rate to 4 p.c. from 4½ p.c.

The dollar had opened on a firmer note before the announcements, with dealers suggesting that for now the dollar had probably found a floor level near the DM1.65 level. Trading volume was affected to some extent by proximity of tomorrow's closure of US markets for Thanksgiving Day. This was likely to be turned into a four day weekend for many traders.

Despite all this, some analysts remained cautious, noting that West Germany had held back from a cut in the discount rate and Japanese officials were continuing to point out that a cut in their rates was unlikely. In addition President Reagan's threat to veto the deficit reduction process if any part of it included "bad" tax legislation, was not seen as providing support for the dollar. However for the time being the proposals were seen as better than nothing, resulting in a firmer dollar trend.

News of a 4.1 p.c. increase in US third quarter GNP was much in line with expectations but was generally well received.

The dollar rose to DM1.6875 from DM1.6680 and Y135.50 compared with Y134.65. Elsewhere it closed at SFr1.3855 from SFr1.3695 and FFr5.7175 from FFr5.6575. On Bank of England figures, the dollar's exchange rate index rose from 95.9 to 96.5.

STERLING-Trading range against the dollar in 1987 is 1.7950 to 1.4710. October average 1.6620. Exchange rate index fell to 75.4 from 75.5 at the opening and 75.7 on Monday. The six months ago figure was 73.2.

Sterling finished on a slightly weaker note due mainly to the dollar's firmer trend. A UK current account deficit of £282m brought a sigh of relief because although not particularly inspiring, it was not as bad as many people had been expecting.

The pound closed at $1.7725 down from $1.7900 but improved against the D-Mark to DM2.99 from DM2.9850. It was also higher against the Swiss franc at SFr2.4550 from SFr2.4525 but eased against the yen to Y240.25 from Y241.0 and FFr10.1350 compared with FFr10.1450.

D-MARK-Trading range against the dollar in 1987 is 1.9305 to 1.6590. October average 1.8011. Exchange rate index 150.7 against 147.5 six months ago.

There was no intervention by the Bundesbank at yesterday's fixing in Frankfurt when the dollar was fixed at DM1.6830, up from DM1.6667 on Monday.

The dollar had risen in earlier trading, possibly indicating some degree of position squaring ahead of tomorrow's holiday in the US. Later in the day a cut in the rate charged by the Bundesbank on its money market sale and repurchase tender provided additional support while news of a third quarter rise to 4.1 in US GNP added to the better tone.

JAPANESE YEN-Trading range against the dollar in 1987 is 159.45 to 134.20. October average 143.27. Exchange rate index 228.4 against 224.9 six months ago.

Trading was confined to a narrow range for much of the day in Tokyo. Dealers were unsure about how the latest US budget cutting proposals would fare in their passage through congress.

Activity was also affected by proximity of tomorrow's Thanksgiving Day closure of US markets. The dollar closed at Y134.95 compared with Y134.80 in New York.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Nov 24	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.1779	+1.70	+0.91	±1.5344
Danish Krone	7.85212	7.95324	+1.29	+0.50	±1.5404
German D-Mark	2.05853	2.06418	+0.27	-0.52	±1.0981
French Franc	6.90403	7.00238	+1.42	+0.63	±1.3674
Dutch Guilder	2.31943	2.32350	+0.18	-0.61	±1.5022
Irish Punt	0.768411	0.775978	+0.98	+0.19	±1.6684
Italian Lira	1483.58	1517.33	+2.27	+1.92	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Nov 24	Latest	Previous Close
£ Spot	1.7755-1.7765	1.7835-1.7845
1 month	0.30-0.29pm	0.35-0.34pm
3 months	0.63-0.60pm	0.65-0.62pm
12 months	1.80-1.70pm	1.87-1.77pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Nov 24	Previous
8.30	[illegible]	75.7
9.00	[illegible]	75.7
10.00	[illegible]	75.8
11.00	[illegible]	75.7
Noon	[illegible]	75.7
1.00	[illegible]	75.7
2.00	[illegible]	75.6
3.00	[illegible]	75.7
4.00	75.4	75.7

CURRENCY RATES

Nov 24	Bank rate %	Special Drawing Rights	European Currency Unit
[illegible]	[illegible]	[illegible]	[illegible]

*CS/SDR rate for Nov 23: 1.77804

CURRENCY MOVEMENTS

Nov 24	Bank of England Index	Morgan Guaranty Changes %
Sterling	75.4	[illegible]
[illegible]	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

OTHER CURRENCIES

Nov 24	£	$
[illegible]	[illegible]	[illegible]

*Selling rate

POUND SPOT- FORWARD AGAINST THE POUND

Nov 24	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7715-1.7855	1.7720-1.7730	0.34-0.31cpm	2.20	0.67-0.63pm	1.47
Canada	2.3310-2.3409	2.3310-2.3320	0.19-0.08cpm	0.69	0.14-0.03pm	0.15
Netherlands	3.35¼-3.37	3.36-3.37	1¼-1cpm	4.01	3⅜-3¼pm	3.86
Belgium	62.30-62.62	62.45-62.55	38-10cpm	2.69	35-25pm	1.95
Denmark	11.48¼-11.50½	11.52½-11.53½	⅞-1⅞oredis	-1.30	4-4½dis	-1.52
Ireland	1.1217-1.1255	1.1225-1.1235	0.05pm-0.01dis	0.21	Par-0.15dis	-0.27
W. Germany	2.98¼-2.99½	2.98¾-2.99½	1½-1¼pfpm	5.52	3⅞-3⅝pm	5.02
Portugal	240.00-242.77	240.00-241.00	87-135cdis	-3.54	288-382dis	-5.57
Spain	200.39-202.19	201.70-202.00	92-120dis	-6.30	267-306dis	-5.68
Italy	2191½-2202	2197½-2198½	3-6liredis	-2.46	12-19dis	-2.82
Norway	11.45¾-11.50½	11.45¾-11.46½	5⅞-6⅞oredis	-6.28	18⅝-19⅝dis	-6.65
France	10.11-10.14¾	10.13-10.14	par-½cdis	-0.30	⅜-1¼dis	-0.37
Sweden	10.76¾-10.80½	10.76¾-10.77¾	par-⅜oredis	-0.21	¾-1⅛dis	-0.42
Japan	239¾-240¾	239¾-240¾	1-⅞ypm	4.68	2⅞-2⅝pm	4.68
Austria	20.91-21.08	21.03-21.06	8⅛-7⅛gropm	4.42	23¼-20¼pm	4.12
Switzerland	2.44½-2.46	2.45-2.46	1⅜-1¼cpm	6.11	3⅛-3pm	5.09

Belgian rate is convertible francs. Financial franc 62.85-62.95. Six-month forward dollar 1.19-1.14cpm 12 month 1.88-1.78cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Nov 24	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7715-1.7855	1.7720-1.7730	0.34-0.31cpm	2.20	0.67-0.63pm	1.47
Ireland†	1.5775-1.5873	1.5775-1.5785	0.27-0.22cpm	1.86	0.64-0.56pm	1.52
Canada	1.3115-1.3160	1.3140-1.3150	0.15-0.18cdis	-1.51	0.42-0.45dis	-1.32
Netherlands	1.8815-1.8900	1.8985-1.8995	0.35-0.32cpm	2.12	1.20-1.15pm	2.48
Belgium	35.01-35.30	35.20-35.30	3dis-par	0.15	8-3pm	0.63
Denmark	6.44¼-6.50¾	6.50¼-6.50¾	1.30-1.90oredis	-2.87	3.95-4.25dis	-2.40
W. Germany	1.6710-1.6890	1.6870-1.6880	0.50-0.47pfpm	3.46	1.53-1.48pm	3.58
Portugal	136.50-137.25	136.75-137.15	70-120cdis	-8.35	200-350dis	-8.06
Spain	113.10-113.80	113.70-113.80	65-85cdis	-7.93	185-215dis	-7.05
Italy	1231-1241	1239½-1240½	4.20-5.20liredis	-4.56	12.00-15.00dis	-4.37
Norway	6.44¼-6.47¼	6.46½-6.47	4.45-5.00oredis	-8.78	12.85-13.45dis	-8.15
France	5.67½-5.72	5.71½-5.72	1.00-1.20cdis	-2.31	2.45-2.75dis	-1.82
Sweden	6.04¼-6.08	6.07½-6.08	1.00-1.30oredis	-2.27	2.65-3.05dis	-1.88
Japan	134.75-135.55	135.45-135.55	0.32-0.29ypm	2.70	1.10-1.06pm	3.19
Austria	11.77-11.85¾	11.84-11.84½	2.50-1.50gropm	2.05	9.00-7.00pm	2.70
Switzerland	1.3700-1.3870	1.3850-1.3860	0.51-0.46cpm	4.21	1.26-1.21pm	3.57

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 35.35-35.45.

EURO-CURRENCY INTEREST RATES

Nov 24	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sw. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutschmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXCHANGE CROSS RATES

Nov 24	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FINANCIAL FUTURES

Gilts finish little changed

LONG TERM gilt futures finished little changed on the London International Financial Futures Exchange yesterday, after the Bank of England left its money market dealing rates unchanged, quashing hopes of any immediate cut in UK bank base rates.

December gilt futures opened a little higher at 121-13, and rose on news that central banks in West Germany, France and the Netherlands had cut various interest rates, in response to the US budget accord.

This was followed by encouraging UK trade data, pushing the contract up to a peak of 122-12, before the lack of any move by the UK authorities on interest rates brought it back to close at 121-09, against 121-08 on Monday.

On the other hand three-month sterling deposit futures retained much of earlier gains, finishing at 91.14 for December delivery, against 91.07 previously, as traders continued to believe there would be a cut in UK rates in the near future.

US Treasury bond futures opened weaker on Liffe at 89-14, but gained support from the European interest rate news, starting higher in Chicago and advancing on Liffe, to close at 89-28, compared with 89-20 previously.

The revised growth figure of 4.1 p.c. for third quarter US gross national product was within expectations and had no impact.

Trading in Japanese government bonds was quiet on Liffe, with most interest now turning to March delivery. The March contract opened lower at 106.60, but improved with US Treasury bonds to close at 106.80, compared with 106.63 on Monday.

Earlier in Tokyo bonds were a little firmer, on hopes of easier credit policy by the Bank of Japan.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Mar	Puts-Last Dec	Puts-Last Mar
116	6.17	6.63	0.53	1.51
118	4.53	5.44	1.25	2.32
120	3.36	4.34	2.08	3.22
122	2.31	2.35	3.03	4.25
124	1.45	2.47	4.17	5.35
126	1.09	2.04	5.45	6.56
128	0.45	1.33	7.15	8.21
130	0.28	-	9.00	-

Estimated volume total, Calls 2918 Puts 1237
Previous day's open int: Calls 15959 Puts 8715

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
82	7.30	7.20	0.34	1.12
84	5.56	5.57	0.60	1.49
86	4.20	4.42	1.24	2.34
88	2.60	3.38	2.00	3.30
90	1.57	2.48	2.61	4.35
92	1.12	1.61	4.16	5.53
94	0.45	1.26	5.49	7.18
96	0.25	-	7.29	-

Estimated volume total, Calls 40 Puts 80
Previous day's open int: Calls 725 Puts 264

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Jan	Puts-Last Dec	Puts-Last Jan
18000	4.57	9.12	14.97	16.72
18250	3.88	-	16.78	-
18500	3.27	7.41	18.67	20.01
18750	2.74	-	20.64	-
19000	2.29	5.97	22.69	23.57
19250	1.90	-	24.80	-
19500	1.57	4.77	26.97	27.37
19750	1.29	-	29.19	-

Estimated volume total, Calls 4 Puts 0
Previous day's open int: Calls 39 Puts 135

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls-Last Dec	Jan	Feb	Mar	Puts-Last Dec	Jan	Feb	Mar
1.50	27.65	-	-	27.65	0.00	-	-	0.03
1.55	22.65	22.65	-	22.65	0.00	0.01	-	0.12
1.60	17.65	17.65	-	17.65	0.00	0.05	-	0.37
1.65	12.65	12.65	12.66	12.85	0.01	0.24	0.57	0.95
1.70	7.65	8.13	8.58	8.97	0.17	0.88	1.49	2.07
1.75	3.52	4.61	5.28	5.82	1.07	2.36	3.19	3.92
1.80	1.07	2.22	2.92	3.49	3.62	4.97	5.83	6.59

Estimated volume total, Calls 17 Puts 0
Previous day's open int: Calls 530 Puts 1399

SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls-Last Dec	Jan	Feb	Mar	Puts-Last Dec	Jan	Feb	Mar
1.45	12.90	-	-	-	2.70	-	-	-
1.50	20.60	-	-	20.60	0.30	-	-	0.30
1.55	22.85	-	-	22.85	0.30	0.30	-	0.40
1.60	17.85	17.85	-	17.85	0.30	0.30	-	0.45
1.65	12.85	12.85	-	12.80	0.30	0.40	-	0.85
1.70	7.80	9.60	8.75	9.05	0.45	0.95	1.60	2.10
1.75	3.50	4.65	5.35	5.85	1.15	2.30	3.20	3.90

Estimated volume total, Calls N/A Puts N/A
Previous day's open int: Calls 873 Puts 621

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls-Last Dec	Jan	Feb	Mar	Dec	Puts-Last Jan	Feb	Mar
1.650	12.50	12.50	-	12.75	-	0.30	-	10.70
1.675	10.00	10.10	10.45	10.60	10.10	0.50	0.70	11.25
1.700	7.60	8.00	8.40	8.70	10.15	0.70	1.20	1.75
1.725	5.25	6.00	6.55	7.00	0.20	1.15	1.90	2.45
1.750	3.20	4.50	4.95	5.50	0.70	1.95	2.60	3.00
1.775	1.50	2.90	3.60	4.20	1.65	3.00	3.85	4.60
1.800	0.70	2.05	2.55	3.10	3.05	4.40	5.30	6.00

volume total, Calls 2866 Puts 482
Previous day's open int: Calls 89,936 Puts 77,778

LIFFE- EURODOLLAR OPTIONS
$1m points of 100%

Strike Price	Calls-Last Dec	Mar	Jun	Sep	Puts-Last Dec	Mar	Jun	Sep
89.75	2.78	2.76	2.45	2.27	0.00	0.01	0.06	0.24
90.00	2.53	2.51	2.22	2.06	0.00	0.01	0.08	0.28
90.25	2.28	2.27	2.00	1.86	0.00	0.02	0.11	0.33
90.50	2.03	2.03	1.78	1.66	0.00	0.03	0.14	0.38
90.75	1.78	1.79	1.56	1.48	0.00	0.04	0.17	0.45
91.00	1.53	1.56	1.36	1.30	0.00	0.06	0.22	0.52
91.25	1.28	1.34	1.17	1.13	0.00	0.09	0.28	0.60

Estimated volume total, Calls 07 Puts 1
Previous day's open int: Calls 2388 Puts 2242

LONDON

20-YEAR 12% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev.
Dec	121-09	122-12	121-02	121-08
Mar	121-14	122-10	121-04	121-12
Jun	121-06	121-06	121-06	121-04

Estimated Volume 46132 (27000)
Previous day's open int. 27962 (—)

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH STERLING
£500,000 points of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH EURODOLLAR
$1m points of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

U.S. TREASURY BONDS 8%
$100,000 32nds of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY FUTURES

	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8%
$100,000 32nds of 100%

	Latest	High	Low	Prev.
Dec	89-26	90-05	89-12	89-18
Mar	88-29	89-08	88-15	88-20
Jun	88-04	88-10	88-03	87-26
Sep	87-13	87-16	87-13	87-02
Dec	86-10	86-20	86-10	86-13
Mar	86-01	86-01	85-20	85-16
Jun	-	-	-	84-31
Sep	-	-	-	84-15

U.S. TREASURY BILLS (IMM)
$1m points of 100%

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC (IMM)
SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

JAPANESE YEN (IMM)
Y12.5m $ per Y100

	Latest	High	Low	Prev.
Dec	0.7405	0.7409	0.7388	0.7440
Mar	-	0.7469	0.7448	0.7501
Jun	-	-	0.7520	0.7562
Sep	-	-	-	0.7623
Dec	-	-	-	0.7684

DEUTSCHE MARK (IMM)
DM125,000 $ per DM

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	0.6008
[illegible]	[illegible]	[illegible]	[illegible]	0.6056
[illegible]	[illegible]	[illegible]	[illegible]	0.6110
[illegible]	[illegible]	[illegible]	[illegible]	0.6164
[illegible]	[illegible]	[illegible]	[illegible]	0.6218

THREE-MONTH EURODOLLAR (IMM)
$1m points of 100%

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	92.45
[illegible]	[illegible]	[illegible]	[illegible]	92.40
[illegible]	[illegible]	[illegible]	[illegible]	92.05
[illegible]	[illegible]	[illegible]	[illegible]	91.70
[illegible]	[illegible]	[illegible]	[illegible]	91.41
[illegible]	[illegible]	[illegible]	[illegible]	91.16
[illegible]	[illegible]	[illegible]	[illegible]	90.95
[illegible]	[illegible]	[illegible]	[illegible]	90.77

STANDARD & POORS 500 INDEX
$500 times index

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	244.10
[illegible]	[illegible]	[illegible]	[illegible]	245.00
[illegible]	[illegible]	[illegible]	[illegible]	-
[illegible]	[illegible]	[illegible]	[illegible]	-

MONEY MARKETS

European rates cut

EUROPEAN CENTRAL banks acted yesterday to reduce interest rates, in response to the US budget agreement.

The move may also be seen as an attempt to take upward pressure off the D-Mark and Dutch guilder to reduce strains within the European Monetary System.

There was no obvious impact on the money market in London, but the announcement of lower rates on the Continent, coupled with better than expected UK trade figures, led to a slight easing. Three-month interbank declined to 8¾-8⅝ p.c. from 8⅞ p.c.

UK clearing bank base lending rate 9 per cent from November 5

The Bank of England initially forecast a money market shortage of £800m, but revised this to £850m at noon. Total help of £914m was provided.

An early round of assistance was offered, and at that time the authorities purchased £7m bank bills in band 1 at 8⅝ p.c. Before lunch another £321m bank bills were bought in band 1 at 8⅝ p.c.

In the afternoon the Bank of England purchased £476m bills, by way of £13m local authority bills in band 1 at 8⅜ p.c.; £371m bank bills in band 1 at 8⅜ p.c.; and £92m bank bills in band 2 at 8⅜ p.c. Late assistance of £410m was also provided.

Bills maturing in official hands, repayment of late assistance, and a take-up of Treasury bills drained £290m, with exchequer transactions absorbing £425m, and bank balances below target £90m. These outweighed a fall in the note circulation adding £25m to liquidity.

In **Frankfurt** the West German Bundesbank, acting in concert with the Bank of France, offered liquidity through a 28-day securities repurchase agreement at a fixed rate of 3.25 p.c., compared with 3.50 p.c. at the last tender two weeks ago.

In **Paris** the Bank of France cut its money market intervention rate, and seven-day repurchase agreement rate by ¼ p.c. The intervention rate was reduced to 8 p.c. and the seven-day repurchase rate to 8¾ p.c.

In **Amsterdam** the Dutch Central Bank followed the move to lower interest rates by reducing its discount rate by ½ p.c. to 4 p.c. Similar cuts were made in the secured loans rate, to 4½ p.c., and the promissory notes rate to 5 p.c.

In **New York** the US Federal Reserve added liquidity to the banking system with $2bn of customer repurchase agreements. Federal funds were trading at 6¾ p.c. at the time of the Feds' action. Earlier in the day seasonal pressures pushed the rate up to 6¾ p.c.

In **Tokyo** the long term credit banks left the long term prime rate at 5.7 p.c. The coupon rate on five-year bank debentures will also be left unchanged at 4.8 p.c. for the December issue, maintaining the usual 0.9 p.c. differential with the long term prime rate.

FT LONDON INTERBANK FIXING

(11.00 a.m. Nov.24) 3 months US dollars		6 months US Dollars	
bid 7⅝	offer 7¾	bid 7⅝	offer 7¾

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

		Treasury Bills and Bonds	
Prime rate	8¾	One month	[illegible]
Broker loan rate	8½	Two month	[illegible]
Fed. funds	6¾	Three month	[illegible]
Fed. funds at intervention	6¾	Six month	[illegible]
		One year	[illegible]
		Two year	[illegible]
		Three year	[illegible]
		Four year	[illegible]
		Five year	[illegible]
		10-year	[illegible]
		30-year	[illegible]

Nov 24	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	3.30-3.40	3.30-3.50	3.70-3.90	3.70-3.90	3.80-4.00	4.50
Paris	8.5625	8.5625	8.625	8.75	8.875	8.00
Zurich	1.00	2.75	-	3.875	-	-
Amsterdam	4.00	4.8125	-	4.9375	-	-
Tokyo	3.40625	3.90625	-	4.00	-	-
Milan	10.25	11.50	-	11.50	-	-
Brussels	6.75	6.75	-	6.9375	-	-
Dublin	8.25	8.8375	9.125	9.125	9.50	-

LONDON MONEY RATES

Nov 24	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

EUROPEAN OPTIONS EXCHANGE

Series		Feb. 88 Vol	Last	May 88 Vol	Last	Aug. 88 Vol	Last	Stock
GOLD C	$ 440	20	45	-	-	-	-	$ 475.30
GOLD C	$ 460	167	31	-	-	-	-	"
GOLD C	$ 480	116	19	35	32	-	-	"
GOLD C	$ 500	123	13	90	22	68	32.50	"
GOLD C	$ 520	77	8	15	17 B	-	-	"
GOLD P	$ 460	31	8.60	-	-	-	-	"
GOLD P	$ 480	73	16	-	-	-	-	"
		Dec. 87		Jan. 88		Feb. 88		
EOE INDEX C	Fl.200	166	4.50	-	-	-	-	Fl. 179.27
EOE INDEX C	Fl.215	222	1.70	33	4.70	-	-	"
EOE INDEX P	Fl.155	76	2.70	23	5.60	-	-	"
EOE INDEX P	Fl.160	120	4	10	7.50	-	-	"
S/FL C	Fl.190	81	2.40	11	3.40	-	-	Fl. 189.58
S/FL C	Fl.195	70	1.10	1	1.60	-	-	"
S/FL P	Fl.180	2	0.30	30	1.20	-	-	"
S/FL P	Fl.185	291	1.40	53	2.70	-	-	"
S/FL P	Fl.190	85	3.30	3	4.70	-	-	"
S/FL P	Fl.195	522	6.60	3	7.50	-	-	"
S/FL P	Fl.200	132	11.70	4	11.20	-	-	"
S/FL P	Fl.205	173	16 A	-	-	-	-	"
S/FL P	Fl.210	30	21 A	-	-	-	-	"
		Mch. 88		Jun. 88		Sep. 88		
S/FL C	Fl.180	-	-	-	-	117	10.50	Fl. 189.58
S/FL C	Fl.195	45	2.30	-	-	-	-	"
S/FL C	Fl.200	60	1.50 B	-	-	6	3.10	"
S/FL C	Fl.210	10	0.70	-	-	17	1.70	"
S/FL P	Fl.180	121	2.30	-	-	3	5.80	"
S/FL P	Fl.195	630	9.60 B	-	-	-	-	"
S/FL P	Fl.200	200	13.50	-	-	-	-	"
		Jan. 88		Apr. 88		Jul. 88		
ABN C	Fl.46	216	1.10	117	2.30	-	-	Fl. 42.50
ABN P	Fl.40	67	1.40	15	2.80	-	-	"
AEGON C	Fl.65	90	2.90 A	9	3.90	-	-	Fl. 61.30
AEGON P	Fl.60	45	4.20	38	5	-	-	"
AHOLD C	Fl.70	147	4.90	-	-	1	8	Fl. 65.50
AHOLD P	Fl.65	35	6.10	-	-	-	-	"
AKZO C	Fl.110	198	3	71	6.30	-	-	Fl. 92
AKZO P	Fl.100	398	11 B	26	14.50 B	-	-	"
AMEV C	Fl.50	100	1.40	-	-	-	-	Fl. 44.20
AMEV P	Fl.55	149	11.20	-	-	-	-	"
AMRO C	Fl.70	138	1.70	27	3	-	-	Fl. 63.20
AMRO P	Fl.60	32	1.90	11	3.50	-	-	"
ELSEVIER C	Fl.55	71	0.60	7	1	-	-	Fl. 39
ELSEVIER P	Fl.35	125	2.50 B	5	3.50	-	-	"
GIST-BROC. C	Fl.35	231	1.70	4	3.20	5	4 A	Fl. 30.20
GIST-BROC. P	Fl.45	37	16	35	16.20	-	-	"
HEINEKEN C	Fl.130	57	10.80	-	-	-	-	Fl. 130
HEINEKEN P	Fl.110	54	3.20	-	-	-	-	"
HOOGOVENS C	Fl.30	59	3	1	4.20	-	-	Fl. 28.90
KLM C	Fl.50	5	0.30	340	0.80	-	-	Fl. 29
KLM P	Fl.35	11	7.10 A	14	7.80	60	8.70	"
NEDLLOYD C	Fl.130	64	8	-	-	-	-	Fl. 117.50
NEDLLOYD P	Fl.140	2	26	21	29	-	-	"
NAT. NED. C	Fl.50	234	6.60	-	-	-	-	Fl. 54.10
PHILIPS C	Fl.35	236	1.40	65	2.30	32	3.30 B	Fl. 30.60
PHILIPS P	Fl.40	398	9.70	-	-	32	12.20	"
ROYAL DUTCH C	Fl.220	291	5.60	63	10.80	-	-	Fl. 203.80
ROYAL DUTCH P	Fl.210	36	12.80	23	16	120	22	"
ROBECO P	Fl.90	51	9	-	-	-	-	Fl. 83.10
UNILEVER C	Fl.120	130	4	550	9	4	12.50	Fl. 107.70
UNILEVER P	Fl.90	318	2	65	5.70	4	8.50	"

TOTAL VOLUME IN CONTRACTS : 26,073

A=Ask B=Bid C=Call P=Put

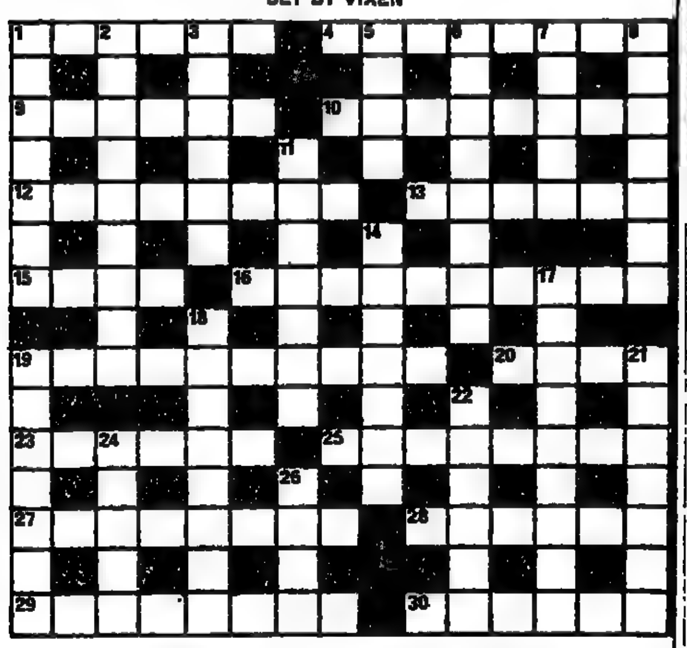
BASE LENDING RATES

	%		%		%
ABN Bank	9	● Charterhouse Bank	9	Nat Bk. of Kuwait	9
Adam & Company	9	Citibank NA	9	NatWestminster	9
Allied Arab Bk	9	City Merchants Bank	9	Northern Bank Ltd	9
Allied Dunbar & Co	9	Clydesdale Bank	9	Norwich Gen. Trust	9
Allied Irish Bank	9	Comm.Bk.N.East	9	PK Financ. Intl(UK)	9½
American Exp.Bk	9	Consolidated Cred	9	Provincial Trust Ltd	10½
Amro Bank	9	Co-operative Bank	*9	R. Raphael & Sons	9
Henry Ansbacher	9	Cyprus Popular Bk	9	Roxburghe G'rantee	10½
ANZ Banking Group	9	Duncan Lawrie	9	Royal Bk of Scotland	9
Associates Cap Corp	10	Equat'l Tst'Co plc	9	Royal Trust Bank	9
Authority & Co Ltd	9	Exeter Trust Ltd	9½	Smith & Williamson Secs.	9
Banco de Bilbao	9	Financial & Gen. Sec	9	Standard Chartered	9
Bank Hapoalim	9	First Nat. Fin. Corp.	10½	TSB	9
Bank Leumi (UK)	9	First Nat. Sec. Ltd.	10½	UDT Mortgage Exp	§11.1
Bank Credit & Comm	9	● Robert Fleming & Co.	9	United Bk of Kuwait	9
Bank of Cyprus	9	Robert Fraser & Ptrs.	10	United Mizrahi Bank	9
Bank of Ireland	9	Girobank	9	Unity Trust Plc	9
Bank of India	9	Grindlays Bank	9	Western Trust	9
Bank of Scotland	9	● Guinness Mahon	9	Westpac Bank Corp.	9
Banque Belge Ltd	9	HFC Trust & Savings	9	Whiteaway Laidlaw	9½
Barclays Bank	9	● Hambros Bank	9	Yorkshire Bank	9
Benchmark Tst Ltd	9	Heritable & Gen. Tst.	9		
Beneficial Trust Ltd	10	● Hill Samuel	§9		
Berliner Bank AG	9	C. Hoare & Co.	9		
Brit Bk of Mid East	9	Hongkong & Shangh	9		
Brown Shipley	9	Lloyds Bank	9		
Business Mtge Tst	9	Meghraj & Sons Ltd	9		
CL Bank Nederland	9	Midland Bank	9		
Central Capital	9	● Morgan Grenfell	9		
Cayzer Ltd	9	Mount Credit Cpn Ltd	9		

● Members of the Accepting Houses Committee. * 7 day deposits 4%. Sunrise 6.66%. Top Tier-£2,500+ at 3 months' notice 8.31%. At call when £10,000+ remains deposited. § Mortgage base rate. § Demand deposit 3.99%. Mortgage 11.125%

FT CROSSWORD No.6,491

SET BY VIXEN



ACROSS

1 The rogue responsible for Clara's breakdown (6)
4 Told about being left cutting the long grass (8)
9 Coppers hurried along the church dance (6)
10 Game inspectors (8)
12 At one time the nurse called for a stretcher (8)
13 Set about a fool and sicken following (6)
15 Kind holy man with a heart of gold (4)
16 Still try it on as a contrivance (10)
19 Running water - test of manufacture (10)
20 Some cooking equipent tips over (4)
23 The one who sends the bill (6)
25 Become passive and a little evasive - get a telling off (8)
27 A musician's proposal? (8)
28 Concerned with a girl delinquent (6)
29 More lads might acquire noble titles (8)
30 Hit hard by an advertising phrase (6)

DOWN

1 A note journalists hold back (7)
2 Mum, badly treated, is devastated (9)
3 Like the Conservative leader, object to rise (6)
5 Some speech or other that evokes memories (4)
6 Create an incident (8)
7 A Greek character at the Exchange (5)
8 Within 24 hours one's quietly left the demonstration (7)
11 Post requiring erudition (7)
14 The horse carrying a large figure appeared overheated (7)
17 Satisfying vegetables served in a sound container (9)
18 Insisted upon making a point over use of desert (8)
19 1 Across learning to beg (7)
21 The unreliable senator's disloyalty (7)
22 A festival including a show (6)
24 Mark writing back to a listener (5)
26 A most peculiar flower (4)

Solution to Puzzle No.6,490

CLINCH POIGNANT
R N O D O N E
AURORA IDOLATER
C E S S F L E
KIPPER HOMELESS
E O T FAN R R A
RESTED R Y
S E DOUBLES B H
G O SPHERE
A T S MUM A R A
STICKLER UNWIND
K N I D K B L
APPLIQUE PINERO
R O N S N R N
INTEGRAL AGEING

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

FT UNIT TRUST INFORMATION SERVICE

Scimitar Asset Management Ltd
8 Crosby Sq, London EC3A 6AQ 01-588 6993/4/5

Scimitar Global Gth Ac	26.1	27.8	+0.2	–
Do Income	26.0	27.7	+0.2	0.19
Scimitar European Acc	20.3	21.6	+0.2	–
Do Income	20.2	21.5	+0.2	0.11
Scimitar UK Eq Inc Acc	32.5	34.2	+0.7	–
Do Income	32.1	32.0	+0.7	5.79
UK Cap Gth Acc	21.9	23.1	+0.5	–
Scimitar Pac Basin Acc	24.7	26.3	+0.2	–
Scimitar Manged Lvrge*	136.5	142.2	+9.2	–

*Unauthorised

Scottish Equitable Fund Mgrs. Ltd(z)
28 St Andrews Sq, Edinburgh 031-556 1051

Intnl Income Units	122.2	130.0	–4.8	2.96
Intnl Accum Units	187.6	198.9	–7.3	2.94
UK General Acc	33.8	36.2	+0.4	3.12
UK General Inc	32.6	34.9	+0.4	3.11
American	25.1	26.8	+0.1	0.64
European	34.4	36.8	+0.9	0.94
Japan	48.9	52.3xd	+0.5	–
Technology	31.3	33.5	–	1.42
Performance Trusts				
Far East Perf Tst	15.4	16.5	+0.1	0.64
High Inc Perf Tst Inc	21.3	22.8xd	+0.2	5.37
High Inc Perf Tst Acc	21.8	23.3xd	+0.2	5.37
Worldwide Tact Perf Ts	24.4	26.1	–	–

Scottish Life Investments(z)
19 St Andrew Sq, Edinburgh 031-225 2211

Nelson (UK Equity)	189.4	202.6	–	2.98
Columbus (America)	114.7	122.7	–	1.42
Marco Polo (Pacific)	182.3	195.0	–	0.51
Da Vinci (European)	206.3	220.7	–	1.71
Drake	46.5	49.8	–	3.50

Scottish Mutual Investment Managers Ltd
109 St Vincent St, Glasgow G2 5HN 041-248 6100

UK Equity	178.3	189.7	+2.1	3.27
UK Smllr. Cos. Equity	179.8	191.3	+1.0	2.43
European	153.5	163.4	+2.3	1.96
Far Eastern	45.9	48.9	–	3.53
Japanese †	47.1	50.2	+0.6	0.19
North American	104.6	111.3	+0.9	1.85
International Growth	100.2	106.6	–1.3	1.27
Worldwide Venture	48.7	51.9	+0.7	2.52

Scottish Provident Inv. Mgt. Ltd

Trades Union Unit Trust Managers
100 Wood Street, London EC2 01-606 4955

TUUT Nov 2 87	196.2	206.6	–	3.07

Triton Fd Mngrs. Ltd.
Royal Ldn. Hse. Colchester CO1 1RA 0206 764400

Triton General	121.7	133.2xd	+1.8	1.84

Tyndall Unit Trust Managers Limited
25 Bucklersbury, London EC4N 248 3399

Convertible & Gilt	57.2	60.9	+0.3	6.65
Accum Units	57.2	60.9	+0.3	6.65
Income	71.9	76.3xd	+0.7	5.71
Accum Units	71.9	76.3	+0.7	5.71
Smaller Co's	81.0	86.3	+0.2	1.74
Accum Units	81.0	86.3	+0.2	1.74
UK Growth	82.7	87.6	+1.0	1.53
Accum Units	82.7	87.6	+1.0	1.53

UK Unit Trust Managers Ltd
Worthing Road, Horsham, RH12 1SL 0403 40030

British Growth Fd	47.4	50.5	–	1.49

Unit Trust Account & Mgmt. Ltd
20 Copthall Ave, London, EC2R 7PA 01-588 6664
Advisers: Henderson Crosthwaite Ltd

Friars Hse Cap Fd	155.2	165.7	–	–
Friars Hse Inc Fd	139.8	148.3	–	–

United Charities Unit Trusts (a)(c)(g)
Unicorn Hse, 252 Romford Rd, EC 01-534 5544

United Charities	147.3	156.7xd	–	4.98

Vanguard Trust Managers Ltd
65 Holborn Viaduct, London EC1A 2EU 01-236 3053
Dealing Line: 01-236 2468

Abingdon Rolls Assets	149.3	158.8	–	2.47
(Accum Units)	152.2	161.9	–	–
Far East & Gen	46.3	49.3	+0.6	1.09
(Accum Units)	46.3	49.3	+0.6	–
Master Portfolio	61.264	62.807xd	+0.885	3.32
(Accum Units)	62.659	64.302	+0.90	–
American & Gen	50.7	53.0	+0.3	2.22
(Accum Units)	52.4	55.7	+0.5	–
Growth	187.3	199.3	+5.2	2.57
(Accum Units)	280.9	298.8	+7.5	–

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd
Phoenix House, Redcliff Hill, Bristol 0272 294941
Life Assurance Funds

Wealth Assur.	353.2	371.9	—	—
Eb'r Ph. Eq.	304.1	323.2	—	—
Pension Plus Funds				
Phoenix				
UK Equity Acc.	149.5	157.3	+2.7	—
International Acc.	114.5	121.5	-0.4	—
Property Acc.	117.8	124.0	—	—
Fixed Interest Acc.	151.4	159.3	-1.2	—
Money Acc.	129.6	136.4	+0.2	—
Bldg. Soc. Link Acc.	130.7	137.5	—	—
Special Mngd. Acc.	135.4	142.5	+0.4	—
Phoenix/Framlington				
Intl. Growth Acc.	73.7	77.5	-0.9	—
Amer. & Gen. Acc.	68.9	72.5	-2.1	—
Capital Tst. Acc.	157.0	165.2	+1.1	—
Japan & Gen Acc.	150.8	158.7	+0.3	—
American Turn. Acc.	67.9	71.5	-0.8	—
Recovery Tst. Acc.	144.4	151.9	+0.8	—
Special Mngd Acc.	125.6	132.2	+0.2	—
Phoenix/GT				
International Acc.	109.9	115.6	—	—
US & General Acc.	79.1	83.2	+0.2	—
Amer Spec Sits Acc.	53.0	55.7	—	—
Japan & General Acc.	145.9	153.5	-0.1	—
Far East & Gen. Acc.	122.5	128.9	+0.4	—
UK Capital Acc.	143.4	150.9	+2.9	—
European Acc.	122.5	128.9	-2.6	—
Special Mngt. Acc.	110.2	115.9	+0.7	—

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

Managed Fund	254.9	268.4	—	—
Man Pens Inc & Cap Fds	323.6	340.7	—	—
Money Fund	110.0	115.8	—	—
Pens. Mngd Fd (Init)	79.2	83.4	—	—
Pens Mngd Fd (Acc)	87.6	92.3	—	—
Pens FT30 Fd (Init)	118.6	124.9	—	—
Pens FT30 Fd (Acc)	131.1	138.0	—	—
Pens O'seas MgFd(Init)	52.5	55.3	—	—
Pens O'seas MgFd(Acc)	58.0	61.1	—	—
Pens Fxd Int Fd (Init)	106.6	112.3	—	—
Pens Fxd Int Fd (Acc)	117.8	124.0	—	—
Pens Deposit Fd (Init)	100.2	105.5	—	—
Pens Deposit Fd (Acc)	110.7	116.6	—	—

Premium Life Assurance Co Ltd

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 01-405 9222

Managed Nov 11	178.8	188.3	—	—

Prudential Holborn Life Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed Fd.	389.4	409.9	+2.7	—
Equity Fd.	776.3	817.2	+20.8	—
Intnl. Fd.	282.0	296.9	-0.9	—
Fixed Int. Fd.	356.9	375.7	-1.0	—
Prop. Fd.	292.6	308.0	—	—
Cash Fd.	231.9	243.5	—	—
Pacific Basin Fd.	152.7	160.8	-0.4	—
North American Fd.	110.9	116.8	+0.1	—
European Fd.	131.0	138.0	-3.6	—

Prudential Holborn Pensions Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed	426.1	448.6	+3.1	—
Equity	597.7	629.2	+13.4	—
Global Equity	174.2	183.4	+0.8	—
Fixed Interest	368.4	387.8	-0.8	—
Property	287.4	302.8	—	—
Cash	135.3	142.3	—	—
Index Linked Gilt	158.8	167.2	+0.9	—
Guaranteed	9.25	10.25	—	—
International Money	182.2	191.8	—	—
North American Fd.	52.6	55.4	+0.3	—
Japanese Fund	100.8	106.2	+0.9	—
European Fund	69.0	72.7	-0.1	—
Special Situations Fd.	86.5	91.1	+1.1	—
Communications Fund	74.0	77.9	-0.3	—
Smaller Cos Fund	87.3	91.9	+0.6	—

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-405 9222

Discretry. Nov 18	£113.09	117.25	—	—
Equity Fund Nov 18	£121.08	124.76	—	—
Intntl Fund Nov 18	£18.56	19.16	—	—
Intl Bond Fd Nov 18	£10.48	10.63	—	—

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS – Contd

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

AMERICANS – Contd

1987 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
43¼	26	RJR Nabisco Inc.	28	+⅛	$1.60	—	3.3
39	21½	Rep NY Corpn $5	23¼	+⅛	$1.16	—	2.9
18⅝	8⅝	Rockwell Intl. $1	9⅞	−⅛	66c	—	3.8
30¼	16¾	Sara Lee $1(1/3)	19⅞xd	+⅛	$1.00	—	2.9
11⅛	8⅞	Saul (B. F.) $1	9⅛	+⅛	20c	—	1.3
27⅞	21⅛	Southwestern Bell $1	20¼	+⅛	h$2.32	—	6.6
22⅞	10⅛	Staley Continental	10⅞	−⅛	80c	—	4.4
44⅞	21⅞	Sun Co. Inc. $1	28⅛	+⅛	$3.00	—	6.1
42⅞	22⅞	TRW Inc. $0.625	24⅛xd	+⅛	h$1.60	—	3.8
37⅞	22⅞	Tenneco $5	23⅛xd	+⅛	$3.04	—	7.5
220	149¾	Do. 10pcLn.Stk. 91-5	150xd		10%	—	6.7
29⅞	15⅞	Texaco $6.25	15⅞xd	−⅛	$3.00	—	10.9
74⅞	42⅞	Time Inc. $1	42⅞xd	−⅛	$1.00	—	1.3
20⅞	11	Tracor $0.33(1/3)	17⅞xd		40c	—	1.3
30⅞	15⅞	Transamerica $1	18⅞xd	+⅛	$1.84	—	5.8
14⅞	1⅞	Transworld Corp $5	724p	−15	20c	—	1.6
27⅞	12⅞	TRINOVA Corp	14	−⅛	56c	—	2.3
24⅞	12⅞	USX $1	15⅞	+⅛	$1.20	—	4.5
19⅞	10⅞	Union Carbide $1	11⅞xd	−⅛	$1.50	—	7.3
37⅞	17⅞	Utd. Technologies	17⅞xd	+⅛	$1.40	—	4.6
38⅞	26⅞	US West	28⅞	+⅛	$3.28	—	6.6
30⅞	17⅞	Waste Management $1	19⅞	+⅛	—	—	—
31⅞	13⅞	Whirlpool $1.0	15	+⅛	—	—	—
37⅞	18⅞	Woolworth $3½	18⅞		$1.32	—	4.0

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LONDON SHARE SERVICE

INSURANCES – Contd

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
516	300	Pearl Group 5p	321	–4	†10.5	–	4.5	–
*811½	733	Prudential	795		†29.0	–	5.0	–
998	350	Refuge 5p	[illegible]	+3	15.75	–	5.6	–
595	345	Royal	[illegible]	–3	†‡15.5	–	5.6	–
110	85	Sailine Ins. Ins.	95	+2	–	–	–	–
*345	168	Sedgwick Group 10p	197	+9	22.0	1.7	8.3	8.4
339	138	Stad Berrill J. 10p	[illegible]	+3	19.0	2.0	7.8	8.8
668	403	Stewart Wr. 20p	[illegible]		‡13.0	2.0	2.9	21.9
612	305	Sturge Hldgs 20p	[illegible]		†16.0	2.5	2.3	22.9
1272½	645	Sun Alliance	[illegible]		†23.5	–	3.9	–
413	865	Sun Life 5p	[illegible]	+5	†28.5	–	4.3	–
[illegible]	[illegible]	♦Taisho M EDR	[illegible]	[illegible]	[illegible]	–	1.0	–
£22¼	£14¼	Torchmark $1.00	[illegible]	[illegible]	Q$1.00	–	4.0	–
430	235	Trade Indemnity	357		14.3	–	1.6	–
[illegible]	[illegible]	Travelers $1.25	[illegible]	–⅛	$2.28	–	6.7	–
£30¼	£17½	USF & G Corp $2.50	[illegible]		Q$2.48	–	7.8	–
£35¾	£16½	USLIFE Corp. $1.0	[illegible]		Q$1.28	3.2	4.5	7.3
738	555	♦Utd Friendly B 10p	600	–50	21.0	–	4.6	–
464	202	Willis Faber 12½p	224	+8	†10.75	2.4	6.6	8.5
126	41	Windsor Secs. 10p	62		†0.7	1.5	1.6	–

LEISURE

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
35½	10	♦A & M Group 10p	16	–1	–	–	–	–
242	90	Airtours 10p	98	–5	R5.4	1.5	8.5	10.6
*549	285	Anglia TV	[illegible]	–1	†‡11.25	3.3	5.4	7.9
308	78	Arley	125		–	–	–	–
194	94	♦Aspinall Hldgs. 10p	96		♦6.0	1.2	8.4	13.2
141	63	♦Avesco 1p	73		0.5	6.7	0.9	20.6
72	40	♦BCE Hldgs 5p	54		L‡0.0	♦	2.5	♦
300	132	Barr & W.A.T. 'A'	215		†8.0	1.6	5.1	17.5
58	22	Bond Media	26		–	–	–	–
235	165	Boosey & Hawkes	165		–	–	–	–
80	28	♦Border T.V.	38	–1	1.4	♦	5.0	♦
*439	43½	Brent Walker 10p	285	+8	†‡6.5	2.2	4.8	13.7
124	79	Do 6pc.Cv.Cu.Rd.Pf.	98	+1	6.0	–	9.1	–

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING – Contd

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES – Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND – Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES – Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

[illegible]

REGIONAL & IRISH STOCKS

[illegible]

IRISH

[illegible]

TRADITIONAL OPTIONS

3-month call rates

Industrials

[illegible]

Property

[illegible]

Oils

[illegible]

Mines

[illegible]

A selection of Options traded is given on the London Stock Exchange Report Page

Account Dealing Dates			
*First Dealings	Option Declarations	Last Dealings	Account Day
Oct 26	Nov 5	Nov 6	Nov 16
Nov 9	Nov 19	Nov 20	Nov 30
Nov 23	Dec 3	Dec 4	Dec 14

*New time dealings may take place from 9.00am two business days earlier.

Equities and bonds respond to concerted European moves to lower interest rates

INDICATIONS OF a concerted response by European countries to the US accord on reducing the Federal budget deficit, strengthened the recovery in UK equity markets yesterday.

Interest rate reductions by the major countries of the European Monetary System (EMS), together with a call from Mr Nigel Lawson, UK Chancellor of the Exchequer, for co-ordinated policies and currency stabilisation by leading industrial nations, strengthened confidence that global economic tensions will be resolved.

Meanwhile, favourable views of the domestic economy were encouraged by the latest UK trade figures, which helped shares extend early gains.

Trading volume in equities picked up from its recent dismal levels, and a gain of more than 30 FT-SE points was consolidated at the close with the help of a firmer dollar and an early upswing on Wall Street. But London seemed unwilling to follow the New York market's early enthusiasm.

The final reading on the FT-SE 100 Index showed a net gain of 31.4 to 1689.1. The market opened quietly firm and chalked up most of its gain in the first half of the session.

Chartists noted that the market jibbed as it approached FT-SE 1700 - yesterday's peak was 1694.4. Some analysts, having identified a new market trading range of 1500 - 1700, are advising selling if the market pierces the top end of the band.

Hopes that UK base rates may follow the other European rates downwards were encouraged by the UK trade figures for October, with a $282m deficit on current account received favourably in the City.

However, the equity market, taking its cue from the London money markets, sensed that there will be no offical pressure to cut domestic rates just yet. Interest-rate sensitive sectors, including building stocks, remained subdued.

The clinching factor for UK rate policy may be the level of the pound against the German mark, suggested John Sams of Chase Manhattan's London office. While the pound remains comfortably short of DM 3.00, the UK authorities may choose to leave domestic rates alone.

The best gains came in those blue chip stocks which suffered most in the market shakeout. **Glaxo**, **ICI** and **Fisons** all moved up sharply in moderate trading. There was strong demand again for **Consolidated Goldfields**, as well as for **Vaal Reefs** and the other leading gold producers.

The improvement in the US dollar, together with the cuts in European interest rates, brought a brighter tone in the Gilt-edged market and prices turned higher after a dull start.

By the end of the day, gains ranged to ⅜ or so at the longer end, with the mediums also in good form. There was not much retail interest, however, and it was left to the trading houses to provide the running.

Index-linked issues added a further ½ point or so, as the exhaustion of the longer dated tap stock bore witness to the demand for stock.

BPB Industries, the UK-based building materials producer, suffered a major setback, the share price dipping by some 25 pence to 248p following a Financial Times report of increasing competition in the UK plasterboard market. Already facing rivalry from the recently-established Redland-CSR joint venture, which has set its sights on achieving 30 per cent of the UK plasterboard market, BPB were dealt a further blow by news that Knauf, West Germany's biggest plasterboard manufacturer, is looking to set up a UK operation.

BPB is set to announce its mid-term profits tomorrow; brokers Wood Mackenzie expect profits of some £90m against the previous year half-year figure of £69.3m.

Allied-Lyons were temporarily blown off course by the decision to acquire the outstanding 49 per cent in its Canadian subsidiary, Hiram Walker-Gooderham. Immediately after the announcement the shares dipped to 330p as concern arose over the intended issue of Preference shares, convertible into ordinary at specified future dates, but a closer assessment of the complex cash and shares transaction brought a strong recovery to 342p, for a gain of 4 on the session.

When purchasing last year the 51 per cent stake in Hiram Walker, Allied-Lyons was granted an option to buy the remaining share capital. But the timing of the move caught the market by surprise yesterday. Allied-Lyons said the deal had been achieved with the co-operation of Olympia & York which, through its 83 per cent owned subsidiary GW Utilities, will retain a long-term interest in the UK group.

Clearing bank shares remained quietly firm, unworried by the suggestion that base rates may have to fall soon. Interest rates are no longer so dominating for bank profits, which now depend more on lending margins in a flexible loan market, and also on the increased importance of non-interest income.

Midland moved up sharply at first and retained the best gain of the day to close 8 up at 378p. **Barclays**, brushing off the trading outlook at BZW, its securities arm, edged higher. **Royal Bank of Scotland**, with results due on December 3, held steady, with some analysts suggesting that the Bank's tolerance of the Hongkong and Shanghai deal increases the chances of a bid for Royal Bank.

Among merchant banks, **Hambros** jumped 8 to 234p on news of a 46 per cent rise in interim profits, which benefited from its lack of exposure to securities marketmaking.

With the City still nervous over the implications for market trading firms of the setback in global securities markets, attention will focus today on the interim profits statement from **S.G. Warburg**, one of the big league in both UK equities and Gilts.

Wayne Gerry of Kleinwort Grieveson Securities comments that while Warburg's profit figures are expected to be very good, "everything prior to the now infamous crash of October '87 and the BP underwriting" is irrelevant to appraising investment banking operations.

The Building sector remained a relative backwater, sentiment not helped by news the BPB Industries may face increased competition in the plasterboard market and thoughts that a further base rate cut may still be some way off. The leaders did little more than mark time in very thin trading. **Blue Circle** settled a few pence cheaper at 338p, but **Tarmac** were a shade firmer at 219p and **Rugby** hardened to 210p. **Redland**, half-year figures due tomorrow, were static at 369p, but **Magnet** attracted good support in front of today's interim results and spurted 9 to 172p. **Vibroplant** were also in demand ahead of imminent figures and gained 65 to 555p in a restricted market.

Major dollar earner **ICI** staged a useful rally - the share price recently fell below £10 - and the close was ⅜ higher on the day at £10½. **Wardle Storeys**, still responding to good figures, rose 15 more to 525p, while **Anchor Chemical**, sharply higher on Monday following the acquisition of a major stake and subsequent bid approach from Air Products and Chemicals, gained a further 28 to 603p as Anchor announced that had received further approaches. USM-quoted **Delmar** added a penny to 52p following the interim statement. **Amersham International** were 19 higher at 373p

A circular from securities house Wood Mackenzie recommending a trio of stocks - **Burton**, **Dixons** and **Ratners**, gave added impetus to the Store sector. **Burton** moved steadily higher to close 6 up at 248p. **Dixons** put on 8 to 234p and **Ratners** gained a similar amount to 258p. **Next** were a few pence better at 265p, while **Coats Viyella** put on 13 to 265p. Elsewhere, **Alexon** attracted support ahead of next Monday's interim statement and closed 15 higher at 300p.

MK Electric soared 141p to 555p on the announcement of a 550p per share cash offer, which values the company at £260.5m, from RTZ; The latter, via market purchases yesterday, was able to increase its holding in MK to around 22 per cent. Prior to the announcement of its offer, RTZ purchased 14.6 per cent of the MK equity at 550p.

British Telecom attracted good support ahead of today's half-year figures and rose 7 to 232p and **GEC** firmed 4 to 174p. **Plessey** were also in demand and gained 12 to 146p, while **Thorn EMI**, currently favoured by Kleinwort Grievson, put on 22 more to 546p. Thorn EMI is expected to announce the sale of its stake in Inmos in the near future after interest from four companies. **STC** made fresh progress to close 8 higher at 204p and **Racal Electronics** firmed 8 to 236p. **Ferranti** were 4 dearer at 81p and **Amstrad** 5 better at 118p.

News of **Carclo Engineering's** stake in Bridon sparked support for other potential takeover targets within the sector with **Birmid** adding 5 to 202p and **Delta** rising 13 to 210p. **Braithwaite** firmed 8 to 208p. **Powerscreen**, interim results due today, added 3 more to 123p.

Food Retailers enjoyed early support and prices made reasonable headway before settling a shade below the best in places. **ASDA-MFI** touched 169p prior to closing 4 dearer at 168p, but **J. Sainsbury**, after initial progress to 238p, eased back to close 4 cheaper on balance at 230p. **Argyll**, interim results due next Wednesday closed 2 cheaper at 186p, after 192p, while **Kwik Save** softened a couple of pence to 282p awaiting today's preliminary figures. Manufacturers attracted selective buying interest and **Hillsdown** were noteworthy for a gain of 8 at 256p. Old takeover favourite **Fitch Lovell** were again to the fore and put on 9 more at 277p, while **Bernard Matthews** picked up 5 at 114p.

Grand Metropolitan featured the Hotel sector, the shares rising steeply to close 11 higher at 405p on more favourable currency influences - the company has heavy US exposure - and also in response to a strong recommendation from Morgan Grenfell Securities; MGS consider the shares underrated and oversold. **Trusthouse Forte** eased a couple of pence to 204p in the absence of any worthwhile buying interest; THF has acquired Portuguese aircraft catering firm Mourao Don Costa Campos for and undisclosed sum.

International issues were again at the forefront of the advance among miscellaneous Industrials. **Glaxo** advanced steadily to close ¾ higher at £11, while **Beecham** put on 15 to 453p for a two-day rise of 25½. **Fisons** gained 20 to 260p and **Reckitt and Colman** 7 to 714p, while **BTR** improved 4 to 265p. **Hanson Trust** added a penny to 131p on a turnover of some 6.2m shares. **Pilkington** continued to attract buyers ahead of the Japanese presentation and rose 7 more to 220p and **BET** firmed 12 to 228p following comment on the results. **Boots** attracted support at 230p, up 10.

Bridon were outstanding among secondary issues, the shares jumping 21 to 126p, after 128p, on confirmation that Carclo Engineering had acquired a 5 per cent stake in the company. Bridon, a long-standing takeover favourite, traded as high as 196p prior to the market collapse of a few weeks ago. **BAA** shed 8 to 100p on details of half-year profits which fell in line with market estimates. **Powell Duffryn's** preliminary profits exceeded market estimates, but the price slipped 5 to 315p. Good annual results boosted **Cosalt** 18 to 110p. **Erskine House** were a shade dearer at 189p.

Advertising Agencies featured **WPP**, up 30 at 890p after news that the $260m credit facility, arranged at the time of the bid for US agency JWT, had been replaced by a medium-term package at a substantially lower cost. Dollar considerations helped **Saatchi & Saatchi** rise 25 to 385p but record annual results were unable to move **TMD Advertising**, which closed unchanged at 186p.

Fearnley, sharply higher on Monday as vague bid rumours resurfaced, enjoyed another speculative run yesterday and at one stage touched 365p before profit-taking prompted a late reaction which left the share price only 5 higher on balance at 345p. **Land Securities** were a quietly firm market and improved 5 to 449p prior to closing unchanged at 440p. **MEPC** improved to 433p before settling 5 off at 426p; the latter's annual results are due today and the market expects profits of around £80m for the full-year. **Slough Estates** were supported and rose 9 to 239p and **Mountleigh** revived with a gain of 5 at 145p. Buyers returned for **Helical Bar**, up a further 11 at 178p and **Property Partnerships** spurted 50 to 300p in a restricted market in belated response to the interim figures and confident statement. **Chase Property** firmed 5 to 220p following the interim figures.

Courtaulds attracted support in front of today's interim statement and closed 9 higher at 352p; half-year profits are expected to come out within the £95 to £100m band, although one optimistic analyst is reportedly going for £105m pre-tax. BZW are forecasting £98m. **Readicut** produced good interim figures yesterday, but the shares failed to respond and the price finished just a shade dearer at 76p; the board expect a satisfactory full-year outcome. **Tootal** were supported at 105p, up 8 and **John Crowther** firmed 5 to 110p. Speculative counter **Falmu** gained 8 to 68p.

International stock **BAT Industries** moved up 9 to 449 among tobaccos. **Rothmans International**, interim results due tomorrow, firmed 8 to 381p.

Oil shares were restrained by the apparent weakness in oil prices, which left traders free to concentrate on "special situations" as Philip Lambert of Kleinwort Grieveson commented. A bright feature was **Enterprise Oil**, which gained ground as the market wondered whether LASMO will return for more shares, after paying 280p for a further 3½ pc stake recently - or even whether LASMO itself will become a bid target of RTZ.

Among the leaders, switching out of **British Petroleum** and into **Shell** continued. The Kuwait Investment Office purchase of **BP "New"** shares masked the wish of institutions to lighten holdings in BP - but only temporarily. UK funds still believe that BP rates a one point yield premium over Shell because the latter is more vulnerable to crude price risk.

Investors turned to Overseas Traders on thoughts that if the equity market generally was attempting to establish a base then the sector was relatively inexpensive. **Lonrho** were additionally pushed higher by the stronger price for bullion and ended 12 up at 222p.

Traded option contracts totalled 26,131 comprising 17,558 calls and 8,573 puts. The FTSE contract attracted 497 calls and 497 puts. Plessey calls were active at 3,620 contracts with puts at 500. Thorn EMI registered 2,105 calls and just 5 puts. **Hanson Trust** calls totalled 606 and puts 1,546.

Traditional Options

- First dealings Oct 5
- Last dealings Oct 16
- Last declarations Jan 7
- For Settlement Jan 18

For rate indications see end of London Share Service

Stocks to attract money for the call included De La Rue, Bristol Channel Ship Repairers, M.Y. Holdings, Burndene Investments, Property Trust, MK Electric Grp, Eagle Trust, Consolidated Goldfields, Blacks Leisure, Dares Estates, Parkdale Holdings, Steger & Freidlander, Control Securities. No "puts" were reported or "doubles" completed.

FINANCIAL TIMES STOCK INDICES

	Nov. 24	Nov. 23	Nov. 20	Nov. 19	Nov. 18	Year Ago	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs.	90.45	90.51	91.08	90.89	90.70	81.12	93.52 (8/5)	85.73 (29/10)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	95.73	95.91	95.64	95.33	95.64	88.79	99.12 (15/6)	90.23 (23/10)	105.4 (28/11/47)	50.53 (6/1/75)
Ordinary ♥	1336.2	1309.4	1285.7	1289.9	1289.5	1270.4	1926.2 (16/7)	1232.0 (9/11)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	312.3	298.8	287.2	296.9	285.5	293.2	497.5 (4/8)	261.6 (6/11)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.64	4.73	4.82	4.80	4.73	4.48				
Earnings Yld. % (full)	11.47	11.71	11.95	11.86	11.70	10.56				
P/E Ratio (net)(*)	10.66	10.45	10.25	10.30	10.45	11.63				
SEAQ Bargains (5pm)	24,801	24,265	28,924	22,188	24,762	25,680				
Equity Turnover (£m)	-	674.89	983.81	888.29	1058.04	983.16				
Equity Bargains	-	27,515	38,167	25,130	29,735	37,536				
Shares Traded (ml)	-	399.0	481.4	437.9	646.5	370.3				

S.E. ACTIVITY

Indices	Nov.23	Nov.20
Gilt Edged Bargains	121.5	104.7
Equity Bargains	178.3	195.5
Equity Value	1364.1	1826.8
5-Day average		
Gilt Edged Bargains	116.6	115.1
Equity Bargains	185.0	202.7
Equity Value	2166.0	2419.3

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1308.7	1321.5	1328.3	1327.0	1334.5	1334.7	1337.7	1332.5

Day's High 1339.7 Day's low 1308.7

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974, * Nil=10.51.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

NEW HIGHS AND LOWS FOR 1987

NEW HIGHS (1).
CHEMICALS (1) Anchor Chemicals
NEW LOWS (33).
AMERICANS (10) CANADIANS (2) BANKS (1) BREWERS (3) CHEMICALS (1) STORES (1) ELECTRICALS (2) ENGINEERING (2) FOODS (2) INDUSTRIALS (3) INSURANCE (1) LEISURE (1) MOTORS (1) PAPERS (1) TRUSTS (1) OILS (1) MINES (1) THIRD MARKET (1).

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tuesday November 24 1987 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 27%)	Est. P/E Ratio (Net)	xd adj. 1987 to date	Mon Nov 23 Index No.	Fri Nov 20 Index No.	Thu Nov 19 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (213)	[illegible]									
2 Building Materials (30)	[illegible]									
3 Contracting, Construction (33)	[illegible]									
4 Electricals (14)	[illegible]									
5 Electronics (35)	[illegible]									
6 Mechanical Engineering (60)	[illegible]									
8 Metals and Metal Forming (7)	[illegible]									
9 Motors (14)	[illegible]									
10 Other Industrial Materials (22)	[illegible]									
21 CONSUMER GROUP (183)	[illegible]									
22 Brewers and Distillers (21)	[illegible]									
25 Food Manufacturing (23)	[illegible]									
26 Food Retailing (17)	[illegible]									
27 Health and Household Products (10)	[illegible]									
29 Leisure (30)	[illegible]									
31 Packaging & Paper (16)	[illegible]									
32 Publishing & Printing (15)	[illegible]									
34 Stores (35)	[illegible]									
35 Textiles (16)	[illegible]									
40 OTHER GROUPS (87)	[illegible]									
41 Agencies (17)	[illegible]									
42 Chemicals (21)	[illegible]									
43 Conglomerates (13)	[illegible]									
45 Shipping and Transport (11)	[illegible]									
47 Telephone Networks (2)	[illegible]									
48 Miscellaneous (23)	[illegible]									
49 INDUSTRIAL GROUP (483)	[illegible]									
51 Oil & Gas (17)	[illegible]									
59 500 SHARE INDEX (500)	[illegible]									
61 FINANCIAL GROUP (120)	[illegible]									
62 Banks (8)	[illegible]									
65 Insurance (Life) (8)	[illegible]									
66 Insurance (Composite) (7)	[illegible]									
67 Insurance (Brokers) (8)	[illegible]									
68 Merchant Banks (11)	[illegible]									
69 Property (49)	[illegible]									
70 Other Financial (29)	[illegible]									
71 Investment Trusts (88)	[illegible]									
81 Mining Finance (2)	[illegible]									
91 Overseas Traders (10)	[illegible]									
99 ALL-SHARE INDEX (720)	[illegible]									
FT-SE 100 SHARE INDEX ♦	[illegible]									

FIXED INTEREST

PRICE INDICES	Tue Nov 24	Day's change %	Mon Nov 23	xd adj. today	xd adj. 1987 to date
British Government					
1 5 years	[illegible]				
2 5-15 years	[illegible]				
3 Over 15 years	[illegible]				
4 Irredeemables	[illegible]				
5 All stocks	[illegible]				
Index-Linked					
6 5 years	[illegible]				
7 Over 5 years	[illegible]				
8 All stocks	[illegible]				
9 Debentures & Loans	[illegible]				
10 Preference	[illegible]				

AVERAGE GROSS REDEMPTION YIELDS		Tue Nov 24	Mon Nov 23	Year ago (approx.)
British Government				
1 Low Coupons	5 years	[illegible]		
2	15 years	[illegible]		
3	25 years	[illegible]		
4 Medium Coupons	5 years	[illegible]		
5	15 years	[illegible]		
6	25 years	[illegible]		
7 High Coupons	5 years	[illegible]		
8	15 years	[illegible]		
9	25 years	[illegible]		
10 Irredeemables		[illegible]		
Index-Linked				
11 Inflation rate 5%	5yrs	[illegible]		
12 Inflation rate 5%	Over 5 yrs	[illegible]		
13 Inflation rate 10%	5yrs	[illegible]		
14 Inflation rate 10%	Over 5 yrs	[illegible]		
15 Debs & Loans	5 years	[illegible]		
16	15 years	[illegible]		
17	25 years	[illegible]		
18 Preference		[illegible]		

♦ Opening index [illegible]; 10 am [illegible]; 11 am [illegible]; Noon [illegible]; 1 pm [illegible]; 2 pm [illegible]; 3 pm [illegible]; 3.30 pm [illegible]; 4 pm [illegible]

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.
NAME CHANGES: APV Baker is now APV.

LONDON TRADED OPTIONS

Option		CALLS Jan.	CALLS Apr.	CALLS Jul.	PUTS Jan.	PUTS Apr.	PUTS Jul.
Allied Lyons (*343)	300	55	67	78	13	17	22
	330	34	45	60	23	30	35
	360	18	28	40	37	45	50
Brit. Airways	130	25	33	38	10	14	18
	[illegible]						

Remaining series of the London Traded Options table (including Brit. & Comm., B.P., Cons. Gold, Courtaulds, Com. Union, British Gas, G.E.C., G.K.N., Grand Met, I.C.I., Jaguar, Land Securities, Marks & Spencer, Shell Trans., Trafalgar House, T.S.B., Woolworths, LASMO, P. & O., Pilkington, Plessey, Prudential, Racal, R.T.Z., Vaal Reefs, Beecham, Boots, Bass, BTR, Blue Circle, De Beers, Glaxo, Hanson, Lonrho, Midland Bank, Rolls-Royce, Thorn EMI, Tesco, Unilever, Wellcome, FT-SE Index and gilt series): [illegible]

November 24 Total Contracts 26,131 Calls 17,558 Puts 8,573
FT-SE Index Calls 497 Puts 497
*Underlying security price.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Stock	Volume 000's	Stock	Volume 000's
[illegible]					

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	[illegible]		
Corporations, Dominion and Foreign Bonds	[illegible]		
Industrials	[illegible]		
Financial and Properties	[illegible]		
Oils	[illegible]		
Plantations	[illegible]		
Mines	[illegible]		
Others	[illegible]		
Totals	1,136	512	1,292

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price p	+ or -	Net Div.	Times Covered	Gross Yield	P.E. Ratio
[illegible]											

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price £	+ or -
[illegible]							

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price p	+ or -
[illegible]							

[illegible]

WORLD STOCK MARKETS

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

GERMANY

ITALY

NETHERLANDS

NORWAY

SPAIN

SWEDEN

SWITZERLAND

SOUTH AFRICA

JAPAN

JAPAN (Continued)

AUSTRALIA

AUSTRALIA (Continued)

HONG KONG

SINGAPORE

CANADA

TORONTO

Closing prices November 24

MONTREAL

Closing prices November 24

Indices

NEW YORK

STANDARD AND POORS

N.Y.S.E. ALL COMMON

TORONTO

NEW YORK ACTIVE STOCKS

LONDON

Chief price changes
(in pence unless otherwise indicated)

RISES:

Amersham Intl	373	+ 19
Anchor Chem	603	+ 28
Beecham	453	+ 15
Bridon	126	+ 21
Dixons	234	+ 8
Fitch Lovell	277	+ 9
Glaxo	£11	+ ¼
Grand Met	405	+ 11
Hillsdown	256	+ 8
Lonrho	222	+ 12
MK Electric	555	+ 141
Plessey	146	+ 12
Polly Peck	286	+ 14
Rover Group	81	+ 6
STC	204	+ 8
Saatchi & S.	385	+ 25
Thorn EMI	546	+ 22
Vibroplant	555	+ 65
WPP Group	390	+ 30

FALLS:

BPB Inds.	248	−25

WE REGRET that over-the-counter closing prices were not available for this edition due to computer problems.

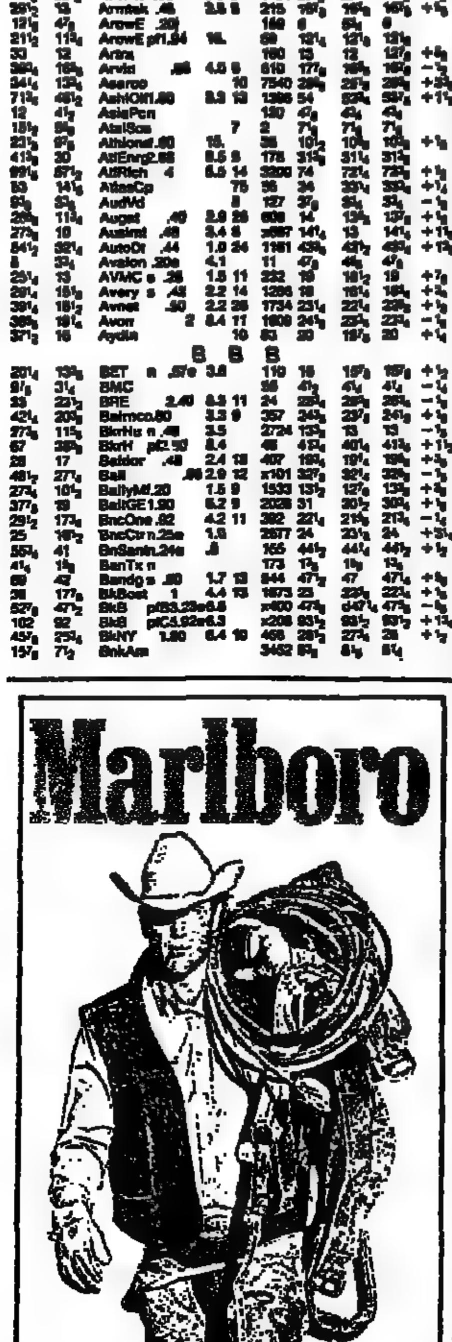
TOKYO – Most Active Stocks
Tuesday, November 24, 1987

OVER-THE-COUNTER *Nasdaq national market, 2.30pm prices*

Continued from Page 47

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25 5/8	14 3/4	AAR s	.36	2.0	17	546	18 1/4	18	18 1/4	+1/8
32 1/2	18 1/4	AFG s	.16	.6	6	516	24 7/8	24 1/4	24 5/8	+1 1/4
27	10 1/2	AGS s			13	127	15 3/4	15	15 1/2	+1/2
10 1/2	6 1/2	AMCA				11	7	6 7/8	7	+1/4
9 3/8	3 1/4	AM Intl			42	1659	4 1/8	4 1/2	4 5/8	-1/8
65 1/2	29 1/2	AMR			9	4713	33 7/8	32 1/4	32 3/4	+1 1/4
12 1/4	6 3/8	ARX s			7	458	7 1/8	7	7 1/8	+3/8
73 1/2	34 1/2	ASA	2a	4.1		1721	49 1/4	47 7/8	48	+2
22 7/8	9 1/2	AVX			18	587	14	12 3/4	14	+1
67	40	AbtLab	1	2.1	18	3311	48	46 7/8	48	+1 1/4
28	15 3/8	Abitibi g				72	18	17 3/8	17 3/4	+1/8
16 3/4	8 1/2	AcmeC .40		4.1	14	207	10	9 1/2	9 7/8	+3/8
10 1/2	6 1/8	AcmeE .32b		4.3	25	2	7 3/8	7 3/8	7 3/8	
20	14 1/8	AdaEx 3.34e		21.		295	16 1/8	16 1/8	16 1/8	-1/2
19 1/2	7 3/4	AdmM s .24		2.6	7	34	9 1/4	8 7/8	9 1/4	+3/8
35	15 1/8	AdvSys			16	441	24 3/4	23	24 1/4	+3/4
24 7/8	8 3/8	AMD				4371	10 3/8	9 7/8	10	-1/8
58 3/4	30 3/4	AMD pf	3	9.8		x425	31 1/4	30 3/8	30 3/4	+1/4
11 7/8	4 3/8	Adobe				579	5 3/8	5	5 3/8	+1/2
20 5/8	15 1/2	Adob pf 1.84		11.		6	17 1/4	17	17 1/4	+3/4
21 7/8	17	Adob pf 2.40		12.		10	20 1/4	20	20 1/4	+1/2
15	6 1/8	Advest .12a		1.5	6	186	8 3/8	8 1/8	8 1/4	+1/8
58 1/4	46	AetnLf 2.76		5.7	7	2018	48 3/4	48	48 3/8	+3/8
83 1/2	33	AfilPb s .32		.7	7	539	46	44 3/4	44 3/4	-1/8
26 7/8	14 1/8	Ahmans .88		6.0	6	4871	15 1/4	14 1/2	14 3/4	+1/8
5 3/8	1 3/4	Aileen				43	2 3/8	2 1/4	2 1/4	
53 7/8	29	AirPrd	1	2.8	13	5009	36 1/4	35 3/8	35 5/8	-5/8
36	11 1/2	AirbFrt .60		4.6	8	270	13 3/8	13	13 3/8	+1/4
16 1/2	7 3/8	Airgas n			14	115	9 7/8	9 1/2	9 1/2	-1/4
19 1/2	13 1/2	AirleaseA 1.11e		13.	9	72	15 7/8	15 1/2	15 3/4	+1/4
15-32	5-16	AlMoan			16	10	11-32	5-16	5-16	-1-32



Continued on Page 47

NYSE COMPOSITE CLOSING PRICES

Continued from Page 46

[illegible]

X Y Z

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
65	60	Xerox	3	5.3	12	9582	57¼	56¼	56½	+½
58¼	52½	Xerox pf5.45		10.		916	55	54¼	54¼	−¼
31½	16¾	XTRA	.64	3.0	14	142	21¾	21½	21½	+¾
28¾	18½	XTRA pf1.94		9.2		87	21	20⅝	21	+⅜
33⅞	16⅝	Yorkin			9	45	22⅛	21¾	21¾	−⅛
7⅛	2¼	Zapata				458	3	2⅞	2⅞	
37	14⅝	Zayre	.40	2.4	6	4051	17¼	16¾	17	+⅛
16⅞	9¼	Zemex	.40	4.0	9	42	10⅛	10	10	
33⅝	10	ZenithE				2717	14⅞	14⅛	14⅞	+⅝
13⅞	3	ZenLab				1086	4	3⅝	3⅞	+⅛
26⅞	13½	ZenNtl	.80	4.7	8	157	17⅛	16⅞	17⅛	+⅛
20¾	11⅝	Zero	.36	2.9	12	374	12¾	12¼	12¼	−½
30¾	15	Zurnin s.68		3.6	13	194	18½	18⅞	18¾	+⅛
16⅞	7⅝	Zweig	.93e	11.		887	8⅝	8⅜	8½	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls - sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

[illegible]

OVER-THE-COUNTER

Nasdaq national market, 2.30pm prices

[illegible]

Continued on Page 45

AMERICA

Dow manages substantial advance

Wall Street

NEWS of modest interest rate reductions in West Germany, France and Holland provided the background for the best performance in equities for nearly two weeks, *writes Janet Bush in New York.*

The Dow Jones Industrial Average closed 40.45 points higher at 1963.53, below the best levels of the day which had seen the index more than 50 points higher but still a convincing rally.

Volume remained well below the levels which were seen in late October but, at just under 200m shares, was the highest since November 12. This was reasonably healthy considering the fact that many traders have taken the opportunity of tomorrow's Thanksgiving holiday to have a week's holiday.

Yesterday's session saw some fairly active institutional buying across a reasonably broad spread of shares.

However, the mood on the US Treasury bond market was in marked contrast to equities. Bonds failed to hold on to modest morning gains as the dollar once again dipped sharply lower. The initial reaction to the rate cuts on the bond market and on foreign exchanges had been lukewarm but generally favourable.

However, afternoon trading saw the dollar dip again amid widespread scepticism that the gulf which exists between deficit and surplus nations can be bridged by a half-hearted accord on the US budget deficit and what were regarded yesterday as token cuts in European interest rates.

The Treasury's benchmark 8.875 per cent 30-year bond lost a gain of 14/32 at midsession to close nearly 1¼ points down, taking its yield to over 9 per cent.

Bond analysts said news yesterday of significant upward revisions in third-quarter US GNP growth and the GNP deflator, one measure of inflation, had acted as a depressant throughout yesterday's session. Strong growth and concern about rising inflation in view of roaring commodity prices and the sharp easing in US monetary policy since the October equity crash suggest that the US Federal Reserve has little domestic justification to cut interest rates again.

The bond market was also focussed yesterday on the Treasury's $7.5bn auction of five-year notes. In what appeared to be reasonably active when-issued trading, the notes were quoted at around 8.28 per cent compared with yields on existing issues of just under 8.3 per cent at midsession. The Treasury then announced an average yield of 8.30 per cent.

News yesterday that the Bundesbank had set a 3.25 per cent fixed interest rate on its latest 28-day securities repurchase agreement, down from 3.50 per cent last week, was seen to presage a cut in Germany's discount rate.

However, it is thought highly unlikely that Germany would actually cut the discount rate until the budget deficit cutting bill has been passed by Congress. Some analysts here saw the move as a token gesture of support rather than a signal that Germany is prepared unconditionally to significantly loosen monetary policy. Sentiment in the foreign exchange market remained gloomy about the dollar's prospects.

Pan Am, whose share price has been suffering since news debt collection agency Towers Financial Corp intends to launch a bid for the airline, yesterday edged $¼ higher to close at $3⅞. There is a large measure of scepticism about whether Towers Financial has the financial resources and know-how to successfully take control of Pan Am.

Giant Group, the cement and investment concern, recouped a $⅜ loss to close unchanged at $18⅞ yesterday. Giant Group said earlier this week it is holding talks about selling its cement operations. Giant is one of few companies involved in the cement business which burns toxic waste, making it an attractive proposition given attempts by Congress to find new solutions for hazardous waste disposal.

Union Pacific Corp, the railroad, trucking and natural resources company currently bidding for USPCI Inc which specialises in hazardous waste disposal, rose $1¾ yesterday to $54¼. Union Pacific's chairman said earlier this week he expected 1987 earnings to reach $4.90 to $5 per share and grow by 10 per cent next year. USPCI, which says it is considering Union Pacific's offer, was up $⅝ at $25⅝.

Decision Industries, the computer equipment concern, rose $1⅛ to $8⅝ after news it has agreed to be acquired by Onset Corp, a newly-formed venture capital firm, for $8.75 a share.

Brokerages E. F. Hutton and Shearson Lehman continued to benefit from the announcement on Monday they are to talk about a possible merger. E. F. Hutton put on another $⅝ to $28 while Shearson Lehman edged $⅝ higher to $15⅞.

Canada

FOLLOWING Wall Street's early trend, Toronto stocks posted solid gains with most sectors joining in.

Energy stocks saw some healthy rises as Shell Canada spurted C$1½ to C$32 and Imperial Oil "A" shares added C$1½ to C$53¾.

However, Encor Energy was steady at C$8½ after saying it would buy back up to 5 per cent of its remaining common shares on the open market.

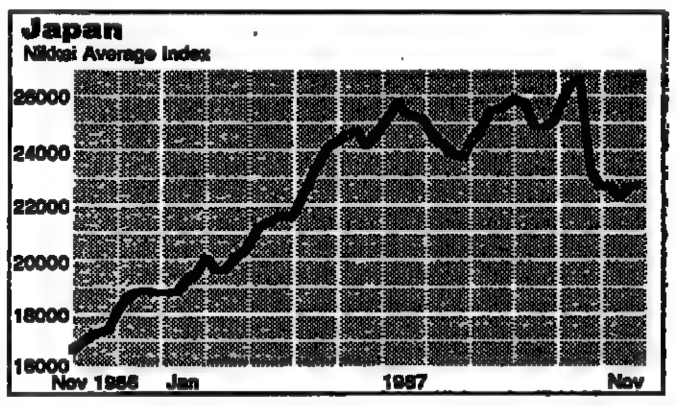
Mines and golds were firm, with Noranda gaining C$½ to C$22¼, Alcan Aluminium rising C$1⅛ to C$33¼, Placer Dome putting on C$½ to C$17½ and Lac Mineral ahead by C$⅛ at C$12⅛.

Elsewhere, bank gains included Royal Bank, up C$¾ at C$27¼, Bank of Montreal, C$⅝ higher at C$25¾ and Canadian Imperial Bank, C$1 ahead at C$19¾.

ASIA

Brokerage houses underpin gains

Tokyo



POST-HOLIDAY trading in Tokyo yesterday brought a moderate rise in prices as the market took heart from the US deal to reduce the budget deficit, *writes Shigeo Nishiwaki of Jiji Press.*

But trading still lacked vigour, amounting to a thin 340m shares compared with Friday's 360m.

The Nikkei average gained 150.46 points to 22,856.02 after rising as much as 240 in afternoon trading. Gains led losses by 551 to 300, with 171 issues unchanged.

Dealers of major brokerage houses bought stock and prompted investment trust management companies to follow suit. But institutions other than investment trusts still showed little buying enthusiasm and individual investors stayed away, with the result that the market lost some of its earlier gains towards the close.

High-technology stocks met brisk demand. Sony, which recently decided to purchase CBS Records of the US, closed Y60 higher at Y4,880 after rising to a day's high of Y4,980.

NEC added Y60 to Y2,020, Matsushita Electric Industrial Y40 to Y2,220, Fujitsu Y40 to Y1,230, TDK Y130 to Y4,700 and Fuji Photo Film Y120 to Y4,080. NTT, however, finished Y30,000 lower at Y2.64m.

Large-capital stocks attracted buying interest from major securities houses in early trading but lost steam later. Kawasaki Steel topped the active list with 41.84m shares changing hands and ended Y2 higher at Y357 after gaining Y7 briefly.

Nippon Steel closed at Y431, Sumitomo Metal Industries at Y296 and Mitsubishi Heavy Industries at Y618, all unchanged from last week's close.

Some pharmaceuticals showed strength. Ajinomoto jumped Y50 to Y3,590 and Yamanouchi Pharmaceutical Y60 to Y3,970, while Takeda Chemical and Eisai advanced Y40 each to Y3,070 and Y2,060, respectively.

Financial issues firmed slightly, with Sumitomo Bank gaining Y20 to Y3,360 and Tokio Marine and Fire Insurance Y20 to Y1,850.

Power and gas utilities were mixed. Tokyo Electric Power ended Y40 lower at Y8,380, but Tokyo Gas finished Y10 higher at Y1,020.

Bond prices firmed but trading was lacklustre. The yen's strength against the dollar triggered small-lot buying of the benchmark 5.1 per cent government bond, falling due in June 1996, helping to push down its yield to 4.795 per cent at one stage from 4.945 per cent at Friday's close.

At this level, however, profit-taking increased, pushing up the yield on the benchmark issue to 4.815 per cent at the end of yesterday's trading.

Osaka Securities Exchange (OSE) stock prices rallied, helped by the US budget accord. The 250-issue OSE stock average closed 125.63 points higher at 23,047.02 on an estimated volume of 53m shares, an increase of 8.8m shares from Friday.

Nintendo surged Y240 to Y8,400, while Nakayama Steel Works registered a maximum allowable single-day gain of Y103 to Y1,040. But Osaka Soda ended Y100 lower at Y1,630.

Australia

A RISE in the bullion price and higher prices for some commodities lifted mining and resource stocks, taking the All Ordinaries index 16.8 higher to 1,266.2 in thin trade.

In stronger golds, Sons of Gwalia gained 60 cents to A$8.00, Kidston was up 20 cents at A$4.30 and Metana climbed 20 cents to A$7.80.

Resources were broadly higher. Peko, which has formed a natural gas exploration partnership in the US with Texaco, added 30 cents to A$5.50, CRA rose 20 cents to A$5.30 and Western Mining advanced 18 cents to A$5.20.

Recent heavy turnover in Bell Resources subsided to 1m shares and the price fell 10 cents to A$1.65. Bell Group was unchanged at A$1.90.

Elders IXL, rose 5 cents to A$3.20 as speculation continued that the company could be the mystery buyer of Bell Resources stock.

Singapore

TECHNICAL selling against a dearth of buying orders left Singapore share prices easier in a trendless session. The Straits Times industrial index fell 4.39 to 818.45.

Shares tailed off broadly but blue chips made up the bulk of losers. Fraser and Neave was 15 cents off at S$7.15 and Cerebos gave up 14 cents to S$4.24. Metro dipped 20 cents to S$5.65.

Malayan Banking was off 14 cents at S$4.04 in a weaker sector as DBS and OCBC both dipped 5 cents to S$9.05 and S$6.95 in turn, while UOB lost 10 cents to S$4.70. OUB fell 4 cents to S$3.50.

Singapore Airlines lost 5 cents to S$9.10 and Genting 8 cents to S$4.72.

Among falling Malaysian counters, Sime Darby dipped 2 cents to S$1.86 on the day's biggest turnover of 1.2m shares.

Hong Kong

INVESTORS stayed largely shy of a dull Hong Kong session as the market ignored gains in Tokyo to close easier. The Hang Seng index closed 6.87 lower at 2,134.84.

Utilities broke ranks, though, with modest gains. Hong Kong Telephone and Hong Kong & China Gas both added 10 cents to HK$11.90 and HK$11.80 in turn, while China Light made up 30 cents to HK$14.80.

Most other sectors fell away, with Sun Hung Kai 10 cents off at HK$8.15 in properties.

SOUTH AFRICA

A SURGE in gold issues inspired by the overnight gain in the bullion price led Johannesburg stocks generally higher in steady trade.

Demand was widespread for blue chip issues although turnover was moderate. The steady financial rand had little effect on the market.

Vaal Reefs led heavyweight golds with a R37.50 leap to R325, while Harties jumped R4.25 to R26.75. Driefontein bounded R4.50 higher to R70.75. Mining financials followed the trend, with Anglo American up R3 at R61.25 and Gold Fields of South Africa R3 stronger at R56.

Banque de France move injects optimism in Paris

INTEREST rate cuts by the Banque de France, the Bundesbank and the Netherlands central bank yesterday injected a sense of cautious optimism into the Paris bourse, helping prices to rally solidly, *writes Paul Betts in Paris.*

The recovery followed the market's mixed reaction in the previous session to the compromise reached in Washington over cutting the US budget deficit.

The Indicateur de Tendance rose 2.7 to 78.10 and the CAC General closed 6.3 higher at 295.80, with many blue chips showing strong gains of between 7 per cent and 10 per cent on the day.

Compagnie du Midi, the insurance group which had suffered heavy losses in past sessions, was notable among the rises, gaining FFr77, or 9 per cent, to close at FFr946.

The shares benefited from rumours, denied by the group, that it was buying stock in Allianz with the intention of making a full bid for the West German insurer.

Gold shares also recovered following a sharp rise in the bullion price.

The bourse had started the day on a cautious note, showing only a 1.3 per cent gain in early trading.

But the market took off after the Banque de France's interest rate announcement in conjunction with the Bundesbank rate cut.

The rise in the dollar and the good performance of the franc further boosted market sentiment.

The feeling among bourse operators was that there were finally tentative signs of concerted international moves to settle world markets.

Building and financial groups, profits of which are heavily dependent on credit costs, took most heart from the easier interest rates. Lafarge Coppee stood out among construction issues with a FFr60 advance to FFr1,213.

Frankfurt steams ahead fuelled by Bayer results

YESTERDAY'S careful cut by the Bundesbank in its securities repurchase agreements played only a minor role in the Frankfurt stock market's strong rise, according to analysts, *writes Peter Bruce in Bonn.*

The FAZ index rose nearly 18 points to close at 450.52 but this was being explained mainly by Bayer producing much better nine-month figures than expected and by its confident claim that it would end the year with record profits and would not be damaged by currency volatility. Its stock rose DM8.70 to DM280.

Other chemical shares were buoyant in Bayer's wake, with BASF rising DM12.40 to DM268 in advance of its nine-month results tomorrow and Hoechst adding DM9 to DM261.

Utilities, led by Veba's DM14.50 surge to DM283, performed strongly, as did banks, with Deutsche up DM21 to DM451. Electrical Siemens added DM18 to DM401.50.

Analysts said that the slight recovery in the US dollar against the D-Mark - despite the fact that the Bundesbank had not intervened in the currency market to support it - had also helped bourse sentiment.

Some dealers in Frankfurt are worried, though, that the market might rise too quickly and encourage profit-taking.

Mr Alfred Herrhausen, chairman of the Deutsche Bank, warned yesterday that capital markets were likely to remain more volatile than ever following October's crash. Markets would become more "realistic and conservative," he said.

Mr Herrhausen, West Germany's most influential banker, said the readiness of banks and brokers to act as intermediaries to cushion the effects of price movements was waning and that this would once again allow simple buying and selling to determine prices and exchange rates.

EUROPE

Rate cuts provide a gentle boost

THE WIDESPREAD cuts in interest rates were generally welcomed yesterday by European bourses, which also took heart from the rise of the dollar.

It was a fragile recovery and trading remained thin and cautious, while some of the smaller markets were preoccupied with local concerns.

AMSTERDAM was boosted by the Dutch Central Bank's ¼ per cent cut in the discount rate. Overseas institutions bought stock in the wake of the rate reduction, adding to upward pressure from local funds and private investors.

However, profit-taking trimmed gains and the CBS all-share index ended off its highs at 68.6, a rise of 1.2. Turnover was up but still moderate at Fl 395m worth.

Internationals made healthy gains, with Unilever climbing Fl 3.20 to Fl 107.70, KLM up 10 cents at Fl 29 and Philips 60 cents higher at Fl 30.60.

Banks also showed enthusiasm, despite the pressure on their profit margins heralded by the discount rate cut. NMB rose Fl 1.50 to Fl 127.50 and ABN added 90 cents to Fl 42.50. Insurer Natnred gained Fl 1.40 to Fl 54.10 before results today.

ZURICH warmed to the firmer dollar and the signs of concerted European action on interest rates. The Credit Suisse index rose 12.6 to 444.5, but turnover was thin as investors remained cautious about the US budget deficit deal.

Blue chips led the advance, with chemicals Sandoz and Ciba Geigy ahead by SFr1,100 to SFr12,300 and SFr105 to SFr2,695 respectively. Engineers were well supported, Brown Boveri advancing SFr55 to SFr1,850 and Oerlikon Buehrle gaining SFr85 to SFr1,360.

Banks were firm, with Union Bank up SFr90 at SFr3,520 and Credit Suisse adding SFr125 to SFr2,650. The Swiss National Bank said assets of the 71 biggest banks were up by 10 per cent in the third quarter compared with a year ago.

BRUSSELS showed a mild gain, with the general index rising 18.16 to 3,831.77 and the forward market index up 41 to 3,395.85. Trading was thin, however, as next month's general election kept many investors away.

Market leader Petrofina saw reasonable turnover, firming BFr100 to BFr9,500, while utilities benefited from Belgium's interest rate cuts, with Tractebel up BFr90 at BFr5,570 and Ebes rising BFr50 to BFr4,550.

Chemical Solvay, which announced it was paying a BFr70 interim dividend, traded BFr80 higher at BFr9,800.

MILAN paid little attention to easier interest rates, focusing on domestic issues as a general strike against the Government's economic policies began.

The MIB index rose 1.87 to 707 with most of the interest in diversified chemical group Montedison, Italy's second largest private company. The group's heavy indebtedness has fuelled speculation that it will sell units soon. Montedison added L57 to L1,525 but its financial services holding Iniziativa Meta shed L55 to L9,395.

MADRID turned mixed to lower as industrials and engineerings moved down and banks firmed on the increasing likelihood of mergers in the sector. The general index closed 3.02 down at 209.25.

Banco de Bilbao, Spain's third largest bank, looked set to succeed with a bid to buy its larger rival Banestro and trading in both issues was suspended. Central climbed 90 percentage points to 1,070 of nominal share value.

OSLO moved ahead as good gains in oils and industrials posted the way. The all-share index added 8.84 to 268.87 in moderate activity.

Saga Petroleum rose NKr3 to NKr93 and Norsk Hydro climbed NKr6.50 to NKr146.50.

STOCKHOLM saw early gains fizzle out in late, nervous profit-taking. Pharmacia lost SKr1 to SKr138, but Volvo and Asea were both firm, adding SKr5 each to SKr295 and SKr290.

HELSINKI slid in very thin trading as disappointing data on the domestic economy depressed the market.

London

IN TUNE with continental European markets, London was cheered by news of easier interest rates in France, West Germany and the Netherlands. Wall Street's strong opening and the firmer dollar were also a fillip for equities, and the FT Ordinary index ended the day 23.1 higher at 1,332.5, while the FT-SE 100 index finished 31.4 up

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

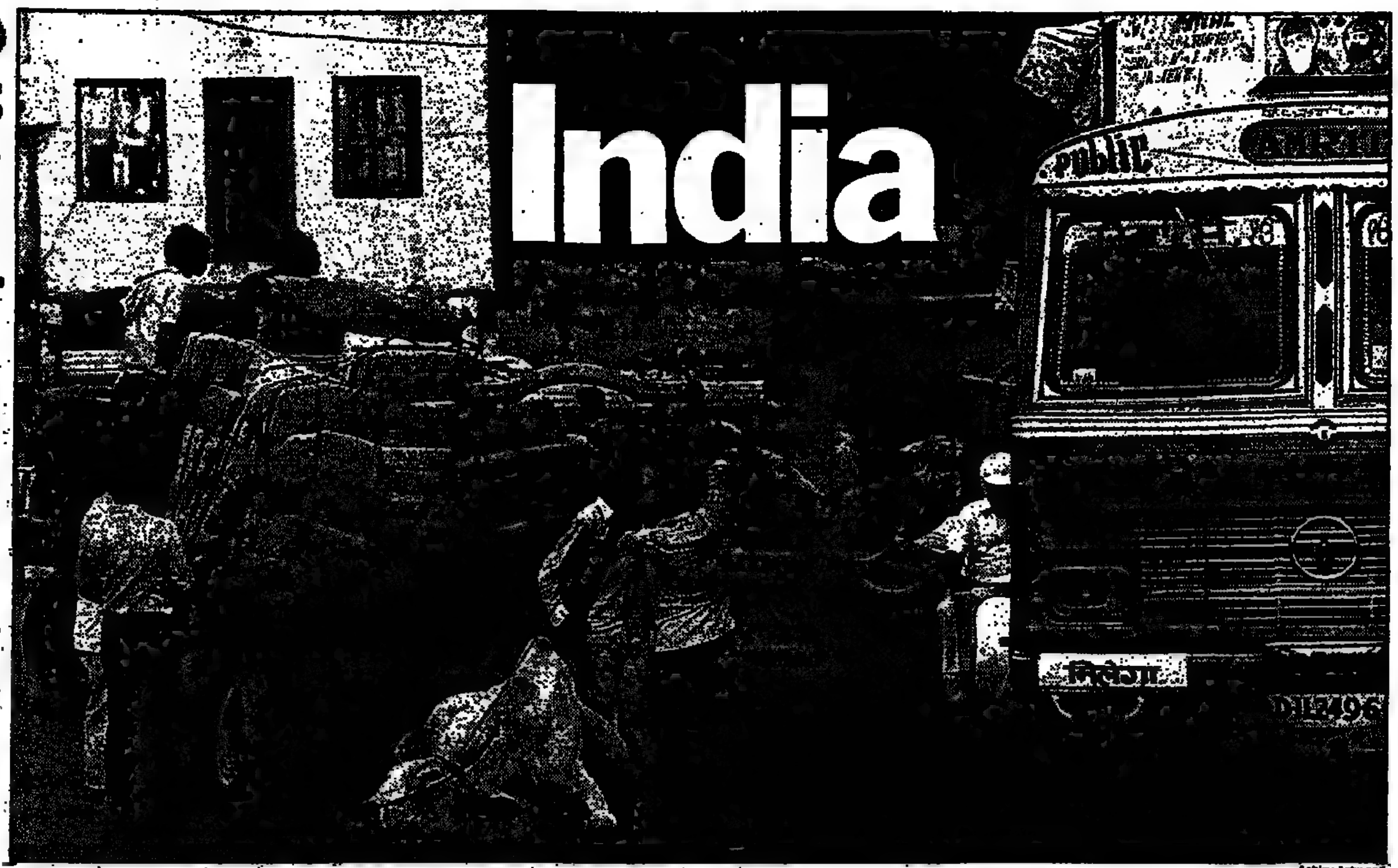
NATIONAL AND REGIONAL MARKETS	TUESDAY NOVEMBER 24 1987					MONDAY NOVEMBER 23 1987			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year ago (approx)
Australia (89)	94.95	+1.3	79.42	91.89	4.45	93.71	77.61	91.25	180.81	85.80	88.64
Austria (16)	91.74	+0.3	76.74	80.23	2.62	92.21	76.38	79.96	102.67	88.53	93.50
Belgium (48)	101.33	+0.0	84.76	88.46	5.40	101.29	83.89	87.80	134.89	96.19	92.42
Canada (127)	103.81	+2.2	86.83	98.81	3.13	101.55	84.11	96.44	141.78	98.15	99.00
Denmark (38)	109.14	+0.2	91.29	96.56	3.10	108.91	90.21	95.21	124.83	98.18	94.47
France (120)	86.13	+3.0	72.04	77.25	3.58	83.66	69.29	74.38	121.83	77.39	96.14
West Germany (93)	76.71	+2.6	64.17	67.30	2.86	74.77	61.93	64.84	104.93	68.91	95.75
Hong Kong (46)	82.23	-1.3	68.78	82.26	5.97	83.35	69.04	83.25	151.00	75.82	90.82
Ireland (14)	103.16	+0.3	86.29	92.12	4.97	102.88	85.21	91.06	160.02	96.20	88.08
Italy (94)	76.53	+1.3	64.01	70.87	2.73	75.53	62.56	69.24	112.11	72.04	95.32
Japan (457)	137.45	+0.0	114.97	117.73	0.59	137.42	113.82	116.96	161.28	100.00	89.22
Malaysia (36)	102.46	-2.0	85.70	98.44	3.70	104.55	86.59	100.34	193.64	99.24	96.77
Mexico (14)	147.02	+6.5	122.97	341.57	0.79	137.99	114.29	355.30	422.59	99.72	91.85
Netherland (37)	97.64	+1.1	81.67	84.63	5.38	96.61	80.02	82.72	131.41	87.70	98.41
New Zealand (23)	76.86	-1.0	64.28	65.57	4.83	77.66	64.33	66.79	138.99	75.99	94.11
Norway (24)	106.68	+4.1	89.23	93.64	2.93	102.46	84.86	89.53	185.01	96.03	104.72
Singapore (27)	97.26	-1.1	81.36	91.11	2.63	98.33	81.44	91.85	174.28	90.19	96.65
South Africa (61)	131.59	+5.4	110.06	89.90	4.79	124.86	103.41	85.30	198.09	100.00	95.46
Spain (43)	116.29	-1.1	97.27	100.21	4.13	117.61	97.41	100.60	168.81	100.00	90.12
Sweden (34)	99.96	-0.7	83.61	89.93	2.56	100.68	83.39	89.46	134.64	89.50	94.96
Switzerland (53)	80.94	+2.4	67.70	69.52	2.42	79.04	65.46	67.11	111.85	73.65	93.57
United Kingdom (332)	121.43	+0.9	101.57	101.57	4.56	120.37	99.69	99.69	162.87	99.65	97.61
USA (582)	100.38	+1.3	83.96	100.38	3.67	99.06	82.05	99.06	137.42	92.83	102.49
Europe (946)	99.07	+1.3	82.87	85.44	3.97	97.79	81.00	83.49	130.02	92.25	94.86
Pacific Basin (678)	133.74	+0.0	111.87	115.47	0.80	133.71	110.75	114.78	158.77	100.00	89.31
Euro-Pacific (1624)	119.91	+0.4	100.30	103.50	1.85	119.38	98.87	102.30	143.65	100.00	91.51
North America (709)	100.56	+1.4	84.11	100.31	3.64	99.19	82.15	98.93	137.55	93.20	102.30
Europe Ex. UK (614)	85.20	+1.7	71.26	75.38	3.44	83.78	69.39	73.37	111.97	79.89	95.73
Pacific Ex. Japan (221)	88.94	+0.0	74.39	86.02	4.84	88.90	73.63	86.25	164.03	83.17	90.45
World Ex. US (1826)	119.49	+0.6	99.95	103.35	1.92	118.83	98.42	102.07	143.38	100.00	91.82
World Ex. UK (2076)	111.18	+0.8	93.00	102.51	2.30	110.28	91.34	101.28	138.82	100.00	96.22
World Ex. So. Af. (2347)	111.95	+0.8	93.64	102.46	2.51	111.07	92.00	101.19	139.47	100.00	95.97
World Ex. Japan (1951)	99.94	+1.4	83.59	94.58	3.81	98.59	81.66	93.00	134.22	95.64	99.21
The World Index (2408)	112.08	+0.8	93.75	102.39	2.53	111.16	92.07	101.09	139.73	100.00	95.97

Base values: Dec 31, 1986 = 100

SECTION III

FINANCIAL TIMES SURVEY

India



Ashley Ashwood

As celebrations proceed to mark 40 years of independence, the country is in sombre mood. Problems of communal violence and conflict in Sri Lanka have been added to drought and compounded by political uncertainty and set-backs, reports **John Elliott**

Overburdened by adversity

THE START OF India's celebrations of 40 years of independence have been clouded by social and economic problems caused by internal racial and religious dissension, and by a bad monsoon.

There has also been considerable political uncertainty caused by the failure of Mr Rajiv Gandhi, the 43-year-old Prime Minister, during the past 18 months to establish his authority and cope effectively with a series of political crises.

The social and economic issues focus attention on India's most intractable problems - poverty and communal violence - which detract from the considerable achievements the country has made in the past 40 years in building a diverse patchwork of people with five religions and 15 main languages into the world's largest democracy.

Mr Gandhi's problems similarly illustrate the country's lack of political development because one party, the Congress, and one family, the Nehru-Gandhis, have run India for almost all the time since independence. There have rarely been rivals.

The tensions in and around the country have been increased in recent weeks by the conflict in Sri Lanka where India, exercising its authority and influence as the Indian sub-continent's main regional power, has sent at least 23,000-25,000 troops, known as the Indian Peace Keeping Force, to try to end the island's racial conflict involving Tamil extremists. There have been heavy casualties among Indian soldiers and it is feared that India may have become involved in a lengthy guerilla war.

In India itself there is no early peace in sight in the northern state of Punjab, where Sikh unrest has contributed to about 1,100 deaths this year. India is accustomed to the violent deaths of mass communal riots, usually involving Hindus and Muslims, which traditionally have erupted suddenly and then fairly quickly expired to become an uneasy peace.

It has also begun to become accustomed to Sikh extremists' terrorist-style attacks on civilians in Punjab and even on prominent targets elsewhere, notably Mrs Indira Gandhi, Mr Rajiv Gandhi's mother, who was assassinated by her Sikh security guards three years ago. New Delhi's streets bristle with old fashioned Sten guns wielded by guards protecting dozens of potential targets.

But this year, just as the independence celebrations were being prepared, the country was shocked first by the scale of Hindu-Muslim riots in Meerut in North India, and then by random killings of civilians by Sikh hit squads in New Delhi itself.

These outbreaks of violence draw attention to a new phase of racial and religious unrest. Younger members of groups which feel under-privileged or economically repressed are less willing now to continue with the peaceful political protests of former generations, and they easily become caught up with extremist religious or other groups.

India has failed to deal adequately with these growing problems, partly because of slow uneven economic growth which has exacerbated divisions between the rich and poor. This year's unusually poor monsoon and the resultant drought over part of the country will make the problems worse, reducing economic growth from some 4-5 per cent to virtually nil, according to latest estimates, while also boosting inflation and public spending.

Such problems tend to sharpen the image of India as an embattled nation. It would be rare in this vast and turbulent status conscious country of almost 800m people to find any year when there is not some disaster or crisis to cloud celebrations.

Despite all its colour, immediate apparent friendliness, and exotic religious festivals, India is not naturally a happy outgoing nation - there are far too many calamities, self doubts and too much pride.

"There is a distrust of the external world, a fortress India feeling that everyone is out to get you, plus a vastly exaggerated notion of your own capabilities, and a misunderstanding of the interests and intentions of others," says a young economist.

Educated Indians develop a defensive pride because they recognise that the country should be doing better, but they know they will see little change in their lifetimes. The less well educated and those held back by poverty and the crippling caste system, which inhibits social change, know there can be little or no change affecting them.

But the dominant Hindu religion's beliefs in *darma* and *karma* - broadly one's duty and destiny - not only help to cushion failure and deter initiative, they also help to defuse tensions and blunt the cutting edge of turbulent social pressures which otherwise could develop into revolutionary fervour.

The pride stems to a considerable extent from India's having only recently, in historical terms, broken free from centuries of Muslim-Moghul and Christian-British (plus a little Portugese and French) rule. It is determined never to be colonised and made subservient again, whether by international bankers, industrialists, or armies.

This determination explains many of its policies, including its resistance to foreign bank loans, technology and industrial investment, which might allow outsiders to dominate its economy, and its paranoiac opposition to US activities in neighbouring Pakistan which challenge its regional super-power role.

It was Mr Jawaharlal Nehru, India's first Prime Minister and Mr Gandhi's grandfather, who set the scene for slow progress under a protectionist regime by designing a mixed economy which tried to include massive Soviet-style industrialisation with the British Labour Party dreams of nationalisation.

A plethora of planning and industrial controls followed later, breeding bureaucratic inefficiency, delays, and corruption, which have meant that India has not realised its potential in areas ranging from utilising advanced science to speeding rural development.

Mrs Gandhi, who would have been 70 this month had she lived, set out to correct this seven years ago, and the pace of change was accelerated by Mr Gandhi when he took over three years ago. Much has been achieved during these years. Almost every industrialist now has one or more live projects in hand - government licences are no longer just being obtained to block competition. The levels of technology have been transformed and a start has been made to meet booming consumer demand with Indian-made electronics and other goods.

But these advances are only impressive against an Indian perspective. Internationally, Indian goods are still massively expensive and of poor quality. Bureaucrats still rule supreme. "There may be only two government clearances needed now for a project where there were ten before, but the two take just as long as the ten because all the civil servants involved in the ten are still consulted," says Mr DR Pendse, economic advisor to the Tata companies. Foreign companies are looking at India slightly more cautiously than a year or two ago.

The pace of economic reform has also slowed down as Mr Gandhi has had to trim his approach to meet the interests of those resistant to change in his party. He moved too fast and without sufficient political experience and subtlety in his first 12 to 18 months. Then he alienated too many friends, ministers, MPs and civil servants with a personal and political style which has turned supporters into opponents, notably Mr Vishwanath Pratap Singh, his former finance and defence minister, who has this summer emerged as a significant opposition figure.

Mr Gandhi's mistakes have been compounded by corruption, scandals and other political setbacks, which, however, have now slowed down enough to give him a chance to reassert himself. His style of government is to take quick decisions without sufficient analysis of the after-effects. The latest example of this is the Indo-Sri Lankan Tamil peace accord which appears to have been put into force without adequate political analysis and military preparation.

At the same time, the political uncertainty of the past year, and Mr Gandhi's style, have slowed down decision making on major development projects to a virtual halt, although there have been some recent signs of movement.

Gradually Mr Gandhi has been beset by all the forces in India which resist change - people from the richest to the poorest who benefit in some way or other from the present corrupt, control-ridden, caste-bound system. Such people include self-seeking politicians who have few western-style ethics, or interest in public service.

With such a culture, India has developed its own priorities and momentum, which often infuriate larger developed powers and puzzle and confuse many observers. Its leaders and prominent bureaucrats acknowledge that enough has not been done on economic development to alleviate poverty, extend education, and modernise agriculture and industry. But allowances have to be made for so large and diverse a country as India building and maintaining a united democracy.

"Some price has to be paid for political democracy," says Dr Manmohan Singh, former head of India's Reserve Bank and Planning Commission. "The Indian experiment of developing economic and social policies with the consent of the people is unique and it is the best."

CONTENTS

Key facts

Area	3,288,000 sq km
Population now approaching	800m
Population est. 1990	844m
Population est. 2000	994m
Annual population growth	2.3 per cent (1973-83)
Annual population growth est.	1.8 per cent (1980-2000)
% of population of working age	57 per cent
% in agriculture	71 per cent
% in industry	13 per cent
Life expectancy	55 years
Adult literacy	36 per cent
No. of cities over 500,000 pop.	11 (1960) 36 (1980)
GNP per capita	$270
DISTRIBUTION OF GDP:	
Agriculture	36 per cent
Industry and manufacturing	41 per cent
RELIGIONS (AS % OF POPULATION):	
Hindus	83 per cent
Muslims	11 per cent
Christians	2.6 per cent
Sikhs	1.9 per cent
Buddhists	0.7 per cent
MAJOR CITIES:	
Calcutta	9.1m pop. (1981)
Bombay	8.2m
Delhi	5.7m
Madras	4.2m
Bangalore	2.9m
Hyderabad	2.5m
Number of villages	596,000
Languages	15
Regional government: 24 states and 7 union territories.	

Source: World Bank statistics and Indian Government census 1981.

1: Politics and foreign affairs

Performing well on the world stage but tensions at home

An absence of alternatives

Mr Gandhi: a disastrous year

India's prime ministers and governing parties

1947-64	Mr Jawaharlal Nehru	Congress Party
1964-66	Mr Lal Bahadur Shastri	"
1966-77	Mrs Indira Gandhi	"
1977-79	Mr Morarji Desai	Janata Coalition
1979-80	Mr Charan Singh	"
1980-84	Mrs Indira Gandhi	Congress I Party
1984-	Mr Rajiv Gandhi	"

BY ANY standards, Mr Rajiv Gandhi, India's 43-year-old Prime Minister, has had a disastrous year. While he has generally performed well on the world stage, he has suffered so many political set-backs and has committed so many political gaffes at home that it seemed at one stage as if the Nehru dynasty, which has ruled India for almost all its 40 years of independence, was about to expire.

Mr Gandhi, however, has been protected by India being a young democracy. The political institutions have not yet developed sufficiently to produce credible alternatives, either within the Congress I Party or in the Opposition, to replace Mr Gandhi, the third Prime Minister from the Nehru family.

If this had not been so, Mr Gandhi might have been changed as leader of his party, and therefore as Prime Minister, during the summer. At that time he was stumbling ineffectually and clumsily through a series of crises, including corruption scandals over a $1.4bn Bofors gun contract and other international deals, plus a controversy over a US detective agency looking into Indians' investments abroad.

These and other events, including a string of ministerial dismissals and changes, provoked the emergence of a band of rebels from within Mr Gandhi's own party, including Mr Vishwanath Pratap Singh, 56, Mr Gandhi's former Finance and Defence Minister.

Mr Singh is now leading a political movement called the Jan Morcha (People's Front), aimed at bringing Mr Gandhi down. The Morcha's leaders of ex-ministers and Congress MPs include Mr Arun Nehru, 43, a cousin and, until last year, a close confidante of Mr Gandhi who has been Minister for National Security and Power.

In the summer the situation was being made much more precarious by Mr Zail Singh, then the country's politically mischievous and astute 71-year old Sikh President. He was in touch with the rebels and would have liked to have used his powers as constitutional head of the country to get rid of Mr Gandhi before he himself retired in July.

Mr Gandhi now seems to be doing a little better and has the advantage of a new loyal President, Mr Ramaswamy Venkataraman, who will support him when he has to face problems early next year in what could be a difficult annual budget session of Parliament. That is when the Bofors and other issues will probably come to a head, along with economic problems stemming from the drought and high government spending.

Until then, Mr VP Singh and other Opposition parties have to hunt for new issues to try to keep their movement alive. These will include an array of corruption allegations, the handling of the drought, and the Sri Lankan situation.

There will be other problems needing more skilful political handling than Mr Gandhi has displayed in the past. One is a government attempt to enforce a ban on *suttee*, a Hindu rural rite in which a widow burns herself to death on her husband's funeral pyre.

An 18-year-old girl committed *suttee* three months ago in Rajasthan, and the government has run into major social and political problems trying to prevent her suicide being celebrated with services and the building of a temple.

Mr Gandhi will also be expected at some stage to take a new political initiative in the Punjab: over 1,100 people have been killed this year, despite the suspension of the Sikhs' Akali Dal State Government and imposition of direct rule from Delhi, called President's Rule.

At present there is no sign of a political initiative, although officials claim that they are beginning to isolate the hardcore extremists from their local political supporters - a move which could be significant.

In the past, Mr Gandhi has not concentrated sufficiently on major issues such as the Punjab. Instead he has rushed from one topic to another, leaving unsolved problems behind him. But his main political set-back has been continual Congress I election defeats ever since his landslide general election victory nearly three years ago.

The defeats culminated in Congress I losing control of the significant northern State of Haryana in the summer after losing West Bengal and Kerala earlier in the year. Fortunately for Mr Gandhi, there are no more major elections to face in the coming year, apart from polls for Delhi Municipality. These will be watched to see if his popular political appeal has turned.

So the future of the Nehru dynasty will probably not now be decided for another two years when India is due to hold its next general election, unless unforeseen major new crises hit Mr Gandhi and he is shown to have learned nothing about political management and leadership. A much discussed, but so far unlikely, alternative is that he will gamble by calling a snap poll next year.

His party has nearly 400 of Parliament's 542 seats, so he is safe unless a large number of his MPs revolt - which they are unlikely to consider doing till very near an election. But at some point in 1989 his party will have to decide whether he has recovered sufficiently as a vote winner to be their best chance of winning the general election, or whether they should seek a new leader.

At that point Mr VP Singh is hoping they will turn to him or, alternatively, that he can unite the fragmented opposition to defeat Mr Gandhi in the polls. So with his Jan Morcha, he has to find a way of keeping up the high level of popular rural support he has been winning as the new popular "Mr Clean", having snatched the title from Mr Gandhi.

There have been many regional opposition party victories in recent years, reflecting frustration with Congress I, in addition to growing popular demands for a regional as well as a national voice. But no one has yet found a way of changing the Congress tide of 40 years and taking India's politics on to a new stage of development.

John Elliott

Congress

Internal debate stifled in weak, top-heavy party

CRISIS is a word that has been associated with the affairs and running of the ruling Congress party since its inception, but it has never been more apt than it is today.

With the party having lost all elections in south and eastern India in the last 18 months and then having been humiliated by its dramatic defeat in Haryana in north India, it is hardly surprising that its leaders have urged Mr Rajiv Gandhi to pull it out of the crisis it finds itself in.

Mr Gandhi's response so far has hardly been inspiring. He has sacked most of the senior officials responsible for organisational affairs but replaced them with people of little stature who lack the clout to act independently. Similar minor changes have been made in some of the state units of the party.

The organisation needs drastic changes if it is to revive the position it held when it won independence for the country in 1947 under the leadership of such heavyweights as Mr Mahatma Gandhi, Mr Jawaharlal Nehru and Mr Vallabhai Sardar Patel. At that time, the party was run by consensus among its leaders who were elected by its millions of members.

The change set in when the former prime minister, the late Mrs Indira Gandhi, set up the I Congress in 1979 (the "I", significantly, stands for Indira) after splitting it twice in the previous decade and dominating it with her late and younger controversial son, Sanja, during her emergency rule from 1975 to 1977.

Since then, the party has been firmly controlled by the family and Mr Rajiv Gandhi, who inherited its presidentship when he became prime minister, has made no effort to reform the organisation.

Organisational elections have not been held in the Congress for the last 17 years. All office bearers are nominees of the president

The organisation needs drastic changes if it is to revive the position it held at independence

and answerable to him. Internal debate in the party is virtually unknown. No meeting of the All India Congress Committee, which should meet at least twice a year to debate national and organisational affairs, has been held for nearly three years.

As one commentator points out, Mr Gandhi, too, is the product of the non-political politics in the Congress. His ascendancy in the party was assured the day his mother appointed him as its general secretary. "The end of debate in the congress led to dynastic succession."

The party has further been weakened by the drift away from it of part of its traditional base among the minorities, particularly some Muslims and the Harijans (the "untouchables") who now have new organisations of their own.

Lacking an identifiable grass-roots base, and without recognised members at the lowest rungs of the party, the Congress I is now top-heavy, dependent for its running and stand on various issues on its president who, as prime minister, has little time for party affairs.

Internal debate has been stifled and action taken by Mr Gandhi against so-called dissidents. These are people who are considered as possible rivals because of their independent views of the kind that were encouraged before Mrs Gandhi took control of the Congress I.

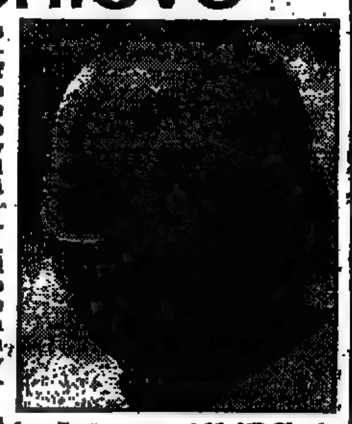
"Dissidents" like Mr VP Singh, Mr Arun Nehru and Mr Arif Mohammed Khan - all former ministers who differed with Mr Gandhi - have arbitrarily been expelled without the formality of being asked to explain their conduct or unspecified examples of indiscipline.

According to an insider in the party, this "ad hocism", combined with the lack of internal debate on national issues, shows that the party continues to be run in the highly-personalised and autocratic style set by Mr Gandhi's mother, compounded by paranoid suspicions, he says. This has reduced the Congress I to its present state of disarray.

KK Sharma

Opposition

Unity hard to achieve



Leading opponent Mr VP Singh is a former Defence and Finance Minister

WHEN MRS Indira Gandhi was Prime Minister of India, opposition leaders began a series of "conclaves" in a bid to achieve unity among their parties. The conclaves were attended by 10 to 15 leaders representing as many groups - less than half the total number of opposition groups in India.

The numbers reflect the weakness of the opposition parties. There are just too many and only two or three can claim to have a national base. That the conclaves proved futile, both in achieving opposition unity or in presenting Mrs Gandhi with any real collective or individual challenge, reflects the disarray.

The only national elections that non-Congress parties have ever won were those held after Mrs Gandhi's emergency rule in 1977. The hastily-formed opposition alliance called Janata won in 1977 not because of its appeal to the electorate, but because it cashed in on the popular abhorrence of the excesses of the emergency.

That the Janata experiment failed, and its component parties fell apart and revived their individual identities, shows the difficulties in achieving opposition unity.

The difficulties remain unchanged. At one end of the political spectrum are right wing parties like the Bharatiya Janata party (Indian People's party). At the other end are two Communist parties which are the only opposition parties to have distinct ideological identities.

The remaining parties claiming national status, like the Janata party and the Lok Dal have neither a wide base nor well-defined policies.

In the absence of an effective national opposition party, a number of regional parties have emerged with strong bases in single states and it is these which are presenting a formidable challenge to Mr Rajiv Gandhi's Congress I. Some national parties also have regional strongholds - the Communist-run state governments in West Bengal, Kerala and Tripura, the Janata party rules in Karnataka, and the Lok Dal in Haryana.

Two powerful regional parties are headed by former film stars - in Andhra Pradesh there is chief minister NT Rama Rao's Telegu Desam and in Tamil Nadu the chief minister MG Ramachandran's All-India Anna Dravida Munnetra Kazagham. In Kashmir there is chief minister Farooq Abdullah's National Conference.

Such is their strength that Mr Gandhi has found it politic to make overtures to them and he is, in fact, supported by Mr Ramachandran and Mr Abdullah.

Attempts to achieve opposition unity have been revived recently, notably by BFZOJ Communist chief minister of West Bengal, Mr Jyoti Basu, and the Janata chief minister of Karnataka, Mr Ramakrishna Hegde and Mr Rama Rao. None has succeeded so far, since marked differences among the parties and their leaders remain and the Communist parties are staying out of many initiatives.

Possible moves include a three-phase strategy involving the merger of the Janata, Congress S and the two factions of the Lok Dal in the first phase. This could be followed by an association with the regional parties like the Telegu Desam and an alliance with the Right Wing BJP whose presence could prevent the Communists joining.

Whether all this will eventually materialise is doubted by most observers. A crucial hurdle is the choice of a leader for any organised grouping. Yet another is reaching agreement on a minimum common programme which could be the basis of a manifesto in the next national elections.

These hurdles could be big enough to ensure that the opposition parties remain splintered and thus give the Congress I its traditional electoral advantage.

KK Sharma

Communal problems

Violent complexities

INDIA, SAYS Dr Manmohan Singh, needs a "social and economic revolution with the consent of the people" if it is to overcome its current problems of mass communal violence and ethnic unrest which have been increasing in recent years.

"The challenge is to evolve a pattern of development and living which respects diversity, recognises various ethnic groups and identities, but yet generates a feeling in each group of having a stake in the other regions of India. Then there would be a new meaning to Indian nationhood with pride in cultural identities."

Dr Manmohan Singh has been seconded by India to set up the Non Aligned Movement's new South Commission in Geneva. Aged 55, he is one of India's most respected economists and senior officials. He ran the Planning Commission till three months ago, and before that was Governor of the Reserve Bank of India and a secretary in the Finance Ministry.

As a Sikh, he has a special insight into the problems because they have emerged, in their worst form with Sikh extremist violence in the Punjab, where over 1,100 people have been killed this year.

"The basic factor in Punjab is combative politics, with politicians fishing in troubled waters, plus an undercurrent of a lack of employment for semi-educated youth - there are arts colleges in almost every corner of the state, when it is industrial technical colleges which are 'needed,'" he adds.

Dr Manmohan Singh's remarks illustrate the complexities of India's communal problems, which are rarely, if ever, caused by simple internally-generated factors. Usually they involve far more than the immediately apparent populist, linguistic, or religious causes.

The Punjab violence started partly because an extremist Sikh leader was promoted in the late 1970s by Mrs Indira Gandhi, the late Prime Minister, to serve her own Congress I Party's political ends. Since then the Punjab crisis has been fuelled by rival Sikh politicians, and disenchanted youth have been easy recruits for extremist leaders.

Similarly, protests by Tamils in India's southern Indian state of Tamil Nadu over the Sri Lankan Tamil crisis are generated more by Tamil Nadu political parties trying to make capital out of the situation than by brotherly feeling between the two groups of Tamils, strong though the ethnic bonds may be.

Hindu-Muslim riots in places like Meerut where over 120 people died in a few days this summer, and Gujarat where there have been regular riots during the past two years, are mainly caused by politicians and vested interest groups escalating small issues into crises to try to protect or promote their own political or economic interests.

Often, as in Gujarat, they become tied up with India's pervasive debilitating caste system which has its own regime of jealousies, privileges, taboos and resultant tensions.

Behind all the troubles, lies India's slow, uneven economic development (and a lack of general education) which causes resentment and frustration. One group, town, or state benefits

continued opposite

Foreign policy

Prepared for force

INDIA'S involvement as the major regional power in South Asia has grown dramatically following its July peace accord with Sri Lanka. This was intended quickly to settle its small neighbour's violent Tamil ethnic conflict, but instead has led to a new and bitter guerilla war.

Its preferred international image of a country which is prominent in the Non Aligned Movement and has a foreign policy derived from Mahatma Gandhi's philosophy of non-violence, has had to be modified with the proof that it is prepared to use force to protect what it regards as the best interests of the region.

In this case the interests include India gaining, through letters and an annex attached to the agreement, the right to a say in some of the strategic and defence decisions of Sri Lanka, which it has regarded as too pro-western. It has specially resented Sri Lanka's links with China and its use of Israeli and Pakistani intelligence and military experts.

Despite this aspect of the agreement, the US and other major Western powers supported India for behaving constructively in its regional role when Mr Rajiv Gandhi signed the deal in Colombo on July 29. These countries believe that since then it has correctly shown its determination to carry out its responsibilities by attacking recalcitrant Tamil Tiger extremists and by involving at least 23,000-25,000 of its troops, called the Indian Peace Keeping Force, which have suffered heavy casualties.

Within the region, however, India's smaller neighbours believe the action demonstrates its basic domineering attitude of hegemony and its willingness to use force where necessary to implement its policies. Their worries might be considerably greater were it not for the continuing development of the two-year-old South Asian Association for Regional Co-operation which brings leaders of seven countries together for formal and informal talks, most recently at SAARC's annual summit earlier this month in Kathmandu.

Although the parallel is not exact, some of the smaller countries see a similarity between India's war with Pakistan in 1971, when it assisted the creation of Bangladesh, and its use of troops in Sri Lanka, where it is trying to ensure that the island's majority Sinhalese race give a fair devolutionary deal to the minority Tamils.

India has felt compelled to be involved in Sri Lanka because the island's Tamils are closely linked to 60m people in the southern Indian State of Tamil Nadu. Warring political parties in this state are ready to cash in on the situation and cause civil disturbances for their own purposes, maybe even raising the spectre of Tamil Nadian independence which was a major issue 20 years ago.

For four years India allowed Tamil extremists to run bases, training camps, and political and propaganda offices in Tamil Nadu. But as the violence worsened and Sri Lanka appeared to be constantly resisting a settlement, India came to the conclusion that it would have to be directly involved if the crisis were to end.

But now it is unwittingly embroiled in military action on the northern Jaffna peninsular and elsewhere. Some officials fear this could keep Indian troops on the island for as long as three to five years. This would put strains on India's defence forces, which have had four wars with Pakistan and China in less than a month. It would also lead to increased defence expenditure, which India can scarcely afford.

But India's action in Sri Lanka has helped to revive good Indo-US relations - these have gone through several problems in the past year. A low point was reached in May when Mr Narayan Datt Tiwari, then Foreign Minister, cancelled a trip to Washington because India feared (wrongly) that it might have coincided with the US signing a deal to sell airborne warning and control system aircraft to Pakistan.

Mr Gandhi had an extremely successful trip to the US in October on his way home from the Commonwealth Summit in Vancouver. After meetings with Mr Ronald Reagan, US President, and senior figures in the State Department, he said in a rather un-Indian, almost obsequious, manner that the US had changed its perception and saw a greater role for India in the region.

How far that change affects US military and economic support for Pakistan, and the blind eye it turns to Pakistan's nuclear programme, remains to be seen. Concern about Pakistan remains the central factor affecting almost all of India's foreign policy.

But on other fronts there have been some advances with the US. After a long wrangle India has now decided to buy a Cray XMP-14 super computer which the US government is likely to allow to be upgraded.

Indian diplomats believe that although the change in US views was triggered by the Sri Lankan situation, it also stems from the US seeing more consistency and immediate potential in the opening up of India's economy than China's.

An easing of US-USSR relations could also make the US less sensitive to India's close relationship with the USSR, which it has never been able to understand or accept.

A year-long Festival of the USSR in India, involving cultural, sports and other events, has just opened and will reinforce long-standing links. Despite increased industrial and technological ties with the US, and historic associations with the UK, the Indian Government regards the USSR as its most consistently undemanding and reliable foreign friend.

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more than another which then feels it could do better if it were independent.

This ties in with India's most important unsolved constitutional issue - the devolving of more political power to states so that they have more control over their own economic development, which at present is jealously guarded by New Delhi's powerful bureaucracy and politicians.

Many of the problems date back to India's independence and to the earlier behaviour of the British. "Divide and rule" policies have left some bloody legacies in a country with countless linguistic, religious, and geographic divisions and economic disparities.

Because they were loyal, tough soldiers for example, the British gave the Sikhs and the Gurkhas privileges, encouraging them to feel they had a special place in India, which cannot be sustained today.

Independence itself was accompanied by the partition of Hindu-dominated India and Muslim Pakistan, which was arguably partly caused by the British in earlier years encouraging the Muslim League in order to undermine the Congress Party's independence campaign.

Partition created a legacy of instability in the region, with a question-mark over the legitimacy and permanency of borders, both national and internal. It also meant that rich Muslims fled to the new Pakistan, leaving the poor, who generally had a rough deal from the dominant Hindus, behind in India.

Now 40 years after independence there has been an escalation of all this unrest, involving downtrodden castes in poor states like Bihar as well as groups such as the Sikhs and Muslims. New generations who have grown up since independence do not have the patience of their predecessors and so want to push harder and more violently for a better deal.

The main problem now is that the Punjab situation has been allowed to escalate into so big a crisis that a growing number of Sikhs are actively calling for Khalistan, their name for a totally independent Sikh Punjab, and even some moderate Sikhs believe that one day this could become a reality.

India's unity would then be at risk for the first time since Independence because Kashmir, to the north, which has many Muslims loyal to neighbouring Pakistan, could try to break away as well.

It is for this reason that men like Dr Manmohan Singh urgently want increased attention paid to improved education, communications, political processes, and general economic and social development so that the underlying problems which foster such extremism are reduced.

John Elliott

Defence

Tensions and threats

FOR THE first time in more than 15 years, India appeared to come close to a war with Pakistan early this year. A short while after this threat was averted by both countries, there were reports of heavy troop movements and clashes between India and China on their long common Himalayan border.

"Operation brasstacks", a well-publicised large-scale military exercise conducted by the Indian army last winter near the border with Pakistan which sparked the serious confrontation and an unpublicised "operation chequerboard" exercise on the Chinese border, reflect the traditional concerns of India's defence planners over what they see as threats from the two neighbouring countries.

India and China fought a short but bloody war in 1962. India and Pakistan have gone to war three times since independence - in 1948 and 1965 over Kashmir and in 1971 over Bangladesh. And now India has just been caught up in a new and live front in Sri Lanka where it could be engaged in controversial and prolonged guerilla warfare, for which it has not been trained.

India's defence planners say the twin tensions and threats dictate the country's defence preparedness and all that goes with this - the large defence budget, the size of the armed forces, the plans for modernisation and indigenisation and the deployment of the forces.

Added to this, they say, is the fact that India has constantly to take into account that Pakistan has ready access to sophisticated US arms, which makes it necessary to take counter-measures. This has meant that India has had to make heavy purchases from the Soviet Union and western sources, which supply 40 per cent of all defence imports, as well as initiate a major and ambitious defence production programme of its own.

India now has the world's fourth largest number of men in the armed forces - 1,330,000 - next only to the Soviet Union, China and the US. India's military expenditure is now the seventeenth largest in the world at \$7.1bn. Israel is just ahead with \$7.2bn.

Despite India's long border with China and that country's large armed forces and modern equipment, it is the perception of a real possibility of war with Pakistan that has dictated India's defence policy.

Officials say it is wrong to assume India has overall superiority because Pakistan's forces are overwhelmingly deployed near the Indian border despite the threat to that country from Afghanistan. But India's 31 divisions are also spread along the Himalayas and in cantonments in northern and southern India which make mobilisation time considerably longer.

Army
Number of divisions: 31 (18 infantry, 10 mountain, two armoured, one mechanised). 19 deployed towards Pakistan and 10 mountain divisions to counter Chinese threat. Armoured corps has over 3,000 main battle tanks, including 300 Soviet T-72s.
Air Force
Personnel: 113,000. Over 700 combat aircraft including MiG 21,23,27,29, Jaguar, and Mirage 2000.
Navy
Personnel: 50,000. 70 combat ships including two submarines (two more on order), two aircraft carriers, destroyers and frigates.

The perceived threat from Pakistan has also dictated the arms acquisition programme since 1947. In 1965, for instance, India used French Mysteres and British Hunters and Gnats as an answer to Pakistan's US-supplied Sabre jets.

The Indian Air Force has recently acquired the latest MiG series of jet fighters from the Soviet Union, Mirage 2000s from France and Jaguars from the UK, giving air superiority over Pakistan's F-16 aircraft from the US.

India's determination to indigenise its defence production so that it can be self-reliant in arms has frequently been set back by compulsions of modern technological advances. There have been heavy purchases, for example, of the MiGs from Russia and the Mirages from France.

India's two most ambitious indigenisation programmes are to design and develop a light combat aircraft (LCA) for use from the 1990s as the mainstay of the air force, and a main battle tank (MBT) for the army. Both have meant heavy investments and have run into delays.

It also intends to manufacture Bofors 155mm Howitzer guns, having first bought 400 from Sweden in a \$1.4bn order which has become the subject of a major corruption scandal.

One problem in making the LCA is to develop an engine and India's efforts to make a suitable gas-turbine power system of its own (coded GTX) are making slow progress. This has forced it to buy 12 engines from General Electric of the US until the final GTX engine is ready for use. The MBT has also been delayed because of difficulties in the indigenous development of a suitable power pack.

Critics of the indigenisation programme consider the heavy investments involved wasteful because the long time taken in developing such systems as the LCA and the MBT means they could become obsolete by the time they are ready for use. India would then continue to need to buy the latest weapons available abroad to match Pakistan and China.

Buying abroad, particularly from Russia, has proved to be cheaper in the past and has been unavoidable. According to one independent defence analyst, the terms that Russia offers to India for defence equipment purchases are so attractive that they work out at a 42 per cent grant and usually involve transfer of technology.

This is the main reason, apart from geopolitical considerations, that Russia has emerged as India's main defence supplier - the mainstay of the air force is the MiG series and India is now assembling the MIG-27 from imported kits and has imported MIG-29s while decisions are pending on MIG-31s.

KK Sharma

2: Development and the economy

Michael Prowse looks at a patchy record

Haves and have nots

YOU NEED spectacles tinted the deepest possible pink to get excited about India's development record in the four decades since independence. After 40 years of bureaucratic planning, the sub-continent remains desperately poor - per capita GNP in 1985 was a mere $270.

In per capita terms, India is considerably poorer than either Sri Lanka or Pakistan. In World Bank league tables, it trails behind the likes of Somalia, Sudan and Haiti. Incomes per head in a successful east Asian economy like South Korea are roughly eight times higher.

The dismally low per capita income is the automatic consequence of India's failure either to control population growth (Rajiv Gandhi's India is nearly twice as populous as Nehru's) or to find a formula for rapid economic growth. Between 1965 and 1985 (a period which includes the supposed triumph of India's agricultural "Green Revolution"), incomes per head grew at an average annual rate of just 1.7 per cent. This compares with 4.8 per cent in Communist China and 6.6 per cent in South Korea.

The social implications of the poor overall growth performance are heightened by India's exceptionally unequal income distribution. After 40 years of socialist rhetoric, the richest 20 per cent of the population still appropriate 49 per cent of total household income; the bottom 20 per cent get just 7 per cent of the cake.

It is thus no accident that the Indian media can hail the emergence of a new affluent consumer class, which drinks champagne and drives smart Japanese-designed cars, while around 37 per cent of the population subsists below the official poverty line. It is equally no accident that India boasts a plethora of Western-style universities and institutes while two-thirds of the population remain illiterate.

India is quintessentially a country of haves and have nots. The scale of its regional inequalities makes British worries about a "north-south divide" look laughable. The disparities have been exacerbated by the unevenness of the Green Revolution. The relatively affluent north-west of India - in particular Punjab, Haryana and western Uttar Pradesh - and parts of Tamil Nadu in the south, have benefited disproportionately from the new technology and from heavy public sector investment, especially in irrigation. They have also scooped up the lion's share of agricultural subsidies.

The relative strengths of India's primary, secondary and tertiary sectors are another cause for concern. In a country at India's stage of development, you would expect manufacturing industry to be growing in importance. Yet its share of GDP has barely changed in 20 years. Manufacturing accounts for only about 16 per cent of total output against 28 per cent in South Korea and and 37 per cent in China.

Indian politicians trot out a variety of excuses for this poor development record. The economy inherited from the British after the war was extremely weak, having been starved of investment for decades. The post-war planners had to contend with the rigidities of the caste system and a profusion of languages and dialects.

But most important, in India economics has always played second fiddle to politics. Had the commitment to democracy and government by consent been abandoned, suggest the apologists, India might well have achieved faster per capita growth. The planned economy could have been run with greater dictatorial zeal.

These arguments cannot be dismissed out of hand. But they hardly look like a full explanation. The suggestion that slow growth is the *price paid* for political freedom will seem particularly implausible to citizens of the world's developed liberal economies. In the US and Western Europe, political freedom is regarded as a necessary prerequisite for rapid growth.

A more convincing explanation for the $270 per capita annual income is surely that Indian politicians and bureaucrats have made a dog's breakfast of running the economy. By nature, Indians are entrepreneurial and individualistic: when resident overseas they have tended to flourish as shrewd and hard-working businessmen. Yet industry within India has not been allowed to flourish because it has been cocooned in a quite extraordinary array of controls.

For most of the post-war period, companies were unable to open factories, expand capacity, alter their product mix or close without explicit and time-consuming government approval. Domestic industry was protected almost totally from foreign competition and encouraged to produce virtually exclusively for the home market.

The insulation of India from the world economy was intended to promote the goal of "self-reliance". The barrage of domestic controls was thought necessary to ensure the "efficient" allocation of scarce resources - in other words to ensure that projects and sectors offering the highest social return got the necessary capital and labour. Private enterprise, thought the planners, simply could not be trusted with the task of development.

The scepticism about free markets was not without justification. *Laissez-faire* served the world economy poorly during the 1930s. The trouble was that India's semi-socialist framework of controls went too far in the opposite direction. Instead of efficiency, they spawned corruption and patronage on a massive scale. They gave India a high cost, low quality, economy.

The central question today is whether India will succeed in creating a significantly more liberal domestic trading environment and, at the same time, overcome some of its paranoia about foreign competition. Some progress has been made, especially on the domestic front, since the turn of the decade. Committees advocating a shift from *physical* to *fiscal* controls on industry have been influential. Capacity controls have lost their bite.

But the extent of change so far can be easily exaggerated. It has not yet had much noticeable impact on India's sluggish growth rate: almost all of the acceleration of the 1980s is accounted for by the expansion of public administration and defence - unusual engines for economic development.

Few leading politicians, least of all Mr Narayan Datt Tiwari, the new Finance Minister, seem at home with the concept of economic liberalisation. He talks instead about "rationalisation" and denies even that there is a need for a reassessment of the state's economic role.

The tacit assumption still seems to be that fewer controls would play into the hands of the rich. As the next general election draws closer, Mr Rajiv Gandhi may find it politically expedient to retreat further still from the radicalism of his first few months as premier.

The outlook for radical reform thus looks bleak in the short run. But a growing realisation that the old policies delivered neither social justice nor rapid growth may well force change in the longer-term. The spread of television is introducing a new generation of young Indians to the joys of consumer capitalism. Their material demands will become ever more pressing.

Consumer goods market

Luxuries are reassessed

"BEAST MAN UNLEASHES all his evil force to destroy He-Man!" was the stirring caption on gaudy advertising for Mattel's "Masters of the Universe" action toys in Bombay.

In Manhattan or London, adverts of this kind would not rate a second glance. But what is the world's second largest toy manufacturer doing in India, the land of poverty and deprivation, the country whose planners have long striven to direct resources into "productive" capital investment rather than wasteful and frivolous consumer products?

The answer is that the US company, like many other international giants, is cashing in on the rise in India of a relatively prosperous - and politically articulate - middle class. Mattel has formed a joint venture with Blow Plast *Ltd*, the thriving Indian manufacturer of VIP luggage.

Among other recent deals: Fashionsport (India) has announced that it is to make Playboy footwear, headgear and sportswear in India; TVS Electronics, the Indian manufacturer of computer peripherals, is teaming up with Citizen Watch of Japan to produce printers for personal computers; and Hertz and Budget Rent-A-Car are soon to operate in India under franchise.

The demands of the middle class are making themselves felt across the whole gamut of consumer products. Joint ventures and the belated arrival in India of plastic and polythene packaging technology are transforming the shelves of upmarket supermarkets.

Mr Kuldip Shenker, who runs the Steakhouse store in New Delhi, proudly holds aloft the Tang soft drink powder recently introduced by General Foods and points to various new Nestle products made under licence in India. Instant desserts, quick-fry meals and snack foods of all descriptions are beginning to assault the Indian palate.

Mr PR Latey, the Secretary for Technical Development in the Industry Ministry, says the annual domestic production of "two-wheelers" - motor cycles, scooters and mopeds - has risen 30-fold since the early 1970s. In the same period, the annual production of televisions has soared from about 20,000 a year to 4m today, and the market is still expanding at 20 per cent a year.

Apart from better food, toys, clothing and transport, India's consumer class also wants better education for its children and better housing, furniture and kitchen utensils. A fundamental reassessment of what constitutes a "luxury" is underway.

The new middle class represents at most one-sixth of India's total population. But this still makes for a potential market of perhaps 100-120m people - in other words, a market the size of Britain and France combined.

Content, for the moment, with pedal power

The phrase middle class here has a broader meaning than in developed countries. Because of the prevalence of extreme poverty, it includes people that might be classified as "working class" elsewhere: for example, chauffeurs, municipal sweepers and dockworkers. Broadly speaking, a monthly income of Rs2,000 might be sufficient to put somebody on the lower rungs of the consumerist ladder.

In accounting for the consumer boomlet, Mr Latey stresses the importance of rising disposable incomes, which in turn reflect the rising prosperity of some farmers, the growth of small scale entrepreneurship and the higher wages of the core, union-protected, workforce.

But Mr Dilip Piramal, the chairman of Blow Plast, lays more stress on the impact of deregulation. "Demand is always there in India," he says, "the problem has been supply". He maintains that it is the "better availability of goods and more competition" that is stoking consumerism: the lifting of industrial controls that began around 1980 is allowing India's entrepreneurs to begin to fulfil long-pent up demands.

He points out that the introduction of the new Maruti-Suzuki small car, which was technologically leaps and bounds ahead of exisiting models, led to an instant surge in car sales, even though disposable incomes had hardly changed. The whole economy, he reckons, is shifting from a "seller's to a buyer's market".

But other more sociological factors have also been important. One is the rapid spread and huge popularity of television. The Government decided to increase the number of stations and vastly improve the geographical reach of TV for political reasons. But financing by advertising is having an enormous impact: a demand is being created for consumer products that millions never even knew existed.

The rise of the new consumer class looks unstoppable. The Planning Commission is already aware that it is a sector that it can no longer afford to ignore and starve of resources. Yet consumerism poses many challenges.

Will a Western appetite for consumer goods, coupled with the growing availability of instalment credit, sharply reduce India's historically high savings rate and impair long-term growth prospects? A survey by a leading research institute suggests not, but many pundits have their doubts.

Equally, will the Government be forced to relax the stringent restrictions on consumer goods imports? If it does not, smuggling of foreign products from VCRs to synthetic fabrics - already a major headache - could get completely out of hand.

Perhaps most worrying is the fear that if the growing aspirations of the middle classes cannot be met, social conflict of the sort already seen in the Punjab, the richest state, could become more widespread. An expanding island of privilege, set as it is in a sea of desperate poverty, is bound to test even the placid Hindu temperament.

Michael Prowse

Rural poverty

Attractive blueprint for decentralisation

"IF YOU INTEND to write about poverty," advised the World Bank official in New Delhi, "you should go and see Bunker Roy". She added, disarmingly, "he's very critical of the work of government and multilateral aid organisations".

Mr Sanjit "Bunker" Roy, I quickly discovered, was the articulate and somewhat charismatic director of a voluntary aid organisation based in Tilonia, a small village in the western state of Rajasthan. Educated at the Doon School (a kind of Indian Eton which produced Rajiv Gandhi and countless other leading figures), Mr Roy was a successful Calcutta businessman before deciding to do something practical about rural poverty.

Doing something practical did not mean sitting behind a desk in air-conditioned luxury, but getting out and experiencing the problems of the rural poor at first hand. In 1972, together with three young friends, Mr Roy set up the Social Work Research Centre in Tilonia.

A stumbling block for many aid agencies is that they are forced to operate only through intermediaries - usually the upper-castes

The centre initially concentrated on expanding the supply of clean drinking water in the neighbouring area. This meant drilling bore holes and installing and maintaining modern hand-pumps - devices that can be operated even by small children.

It still does this vital work, but the centre also offers a full-spectrum of socio-economic services. These range from education and health care to animal husbandry, agricultural extension and training in rural crafts such as leather work and hand-loom weaving. SWRC also represents the poor in disputes with landowners and employers.

Big agencies and the Indian Government could learn much from the methods and philosophy of Mr Roy's grassroots organisation. One of his main maxims is that if you want to help the poor and gain their respect, you must adopt their life-style and be accessible to them 24 hours a day, seven days a weeek. The centre, on principle, does not provide electricity or running water on the campus where the staff live and work.

I can confirm that SWRC is not a 9 to 5 weekdays-only agency because I turned up in Tilonia, unexpected, at 9.30 on a Sunday morning. Sure enough, SWRC was open and within minutes a guide, Mr Basruddin Sheikh, had materialised.

He showed me (among other things) the classroom where drop-out children attend night school; a puppet theatre; an impressive library (which contained the World Bank's latest development report as well as novels by Jeffrey Archer); medical facilities that included homoeopathic remedies as well as more conventional medicines; a laboratory with water-testing equipment; and various innovative power sources, including solar panels.

We also visited SWRC field centres in neighbouring villages and the homes of leather workers and handloom weavers, who, thanks to training at Tilonia, now have an independent livelihood.

It is hard to judge an organisation in a very quick visit. But the centre certainly appeared both efficient and surprisingly informal and non-hierarchical. The staff seemed to have good direct contact with the people they were trying to help - mainly scheduled castes and harijans (the lowest of the low), that dominate village councils.

There was also little sign of "dependence" on SWRC. This may reflect the centre's policy of charging for all services. After endless discussions with local people, Mr Roy and his colleagues came to accept that charity was neither wanted nor effective as a development strategy. "No service free of charge is valued," he says, and SWRC unapologetically raises 40 per cent of its resources from the local community.

Perhaps more important, its concept of development is rather different to that of some large aid agencies. Development, in its view, is not mainly a matter of supplying infrastructure or of completing worthy projects on time. Indeed, it has little to do, *per se*, with material things.

Seen properly, development is a matter of altering individuals' attitudes, making them aware of their rights and potentialities. It is synomous with *personal* growth and the formation of *human capital*. It demands human commitment on the part of donors rather than huge financial transfers.

The "Tilonia movement" seems to be gathering momentum. The SWRC has already spawned 15 independent "sub-centres" which do similar work in states across India, from Tamil Nadu in the south to Bihar in the east. Mr Shiekh (my guide) is soon to set up a new centre in a backward part of Madhya Pradesh.

Voluntary organisations like SWRC seem to offer an attractive blueprint for decentralised, non-bureaucratic economic and social development. The problem is that their valuable contribution to development is as yet barely discernible in a country where around 300m people still live in abject poverty.

Michael Prowse

Wheat and rice, which have benefited from the new technology, are consumed by the better off

Agriculture

Poorest lose out

INDIA'S AGRICULTURAL achievements since Independence are frequently praised in the West. Foodgrain production has almost tripled in 40 years; productivity has more than doubled. India, unlike Africa, no longer fears famine. Indeed, it maintains large buffer stocks of food.

The achievements are real and impressive. But all is not rosy in India's garden. In the first place, poor or indifferent monsoons in recent years have underlined its continued vulnerability to adverse weather. In spite of the spread of irrigation, 70 per cent of agricultural land remains rain-fed and therefore impossible to "drought proof".

Poor weather has resulted in the stagnation of agricultural output. Foodgrain production peaked at 152.4m tonnes in 1983/84 and has slid downhill since. Last year's crop is estimated at 149-150m tonnes, slightly worse than the previous year's. The outturn in drought-hit 1987/88 will be considerably worse, possibly 135-140m tonnes.

Yet India's population continues to expand remorselessly. Foodgrain production of at least 225m tonnes will be required by the turn of the century, if India is to feed a population that by then may number 1bn.

How meaningful is India's present claim of food self-sufficiency? Not very, according to some critics. Mr Krishna Raj, the editor of the left-wing Economic and Political Weekly, says India can claim self-sufficiency only because "so many people are poor".

There is, after all, an obvious contradiction in saying that India has all the food it needs when it is also admitted that nearly 40 per cent of the population (some 300m people) are below an absolute poverty line - in other words cannot afford to meet minimum nutritional standards.

If these millions had sufficient incomes to buy the food they needed and wanted, India clearly would not have buffer stocks. It would, like the USSR, be importing heavily. The surpluses are no more than a measure of the gross inequality in purchasing power that disfigures the country.

Professor B B Bhattacharya, of the Delhi Institute for Economic Growth, has pointed out that although food production has increased substantially since Independence, it has not brought significantly higher consumption. "The per capita per day net availability of foodgrains has in fact declined from 480 grams in 1964-65, the peak achieved during the planning period, to 450-470 grams in subsequent years." In bad monsoons, it has fallen as low as 410 grams.

The mismatch between food production and consumption reflects the limitations of the Green Revolution of the 1960s. The introduction of new high yielding seeds, the much greater use of fertilisers and pesticides, and improved farming techniques have allowed India to maintain growth of agricultural product at 2½-3 per cent a year, even though opportunities for increasing the acreage were mostly exploited by the mid-1960s.

But it has not brought balanced agricultural growth. The benefits of new technology and higher investment in irrigation have been largely limited to the affluent states of Punjab, Haryana and Western UP in the North West, and to parts of Tamil Nadu in the South - in other words to about only one quarter of the total cultivated area.

But India's poor are concentrated in the three-quarters of the country that remains undeveloped. They cannot afford to buy grain from the rich states, which are talking about exporting their surpluses. The problem is accentuated because the crops - principally wheat and rice - that have benefited from the new technology are those consumed by the better off. Production of coarse cereals and pulses - staples of the poor - has stagnated by comparison.

The extent of regional disparities is illustrated by the fact that 75 per cent of the total increase in foodgrain output between 1981/82 and 1985/86 was accounted for by higher production in the three states of Punjab, Haryana and Uttar Pradesh. While yields in these states rose by around 27 per cent over the period, they stagnated in poor states like Gujarat and Rajasthan.

The prosperous high-yielding states are consuming around 90 per cent of government subsidies for agriculture, according to Professor K Subbarao, of the Institute for Economic Growth. As he argues, rather than stimulating more output at a higher marginal cost in states like Punjab, the Government should do more to encourage low-cost production in poorer regions. "What we need," he says "is cost-reducing technological progress."

Mr Srinivasa Sastry, the Agriculture Secretary in Delhi, responds to these criticisms by arguing that it was logical to strive first for self-sufficiency and to worry about geographical imbalances later. The Government is trying to promote development of the poorer regions. The launching of the Special Rice Production Programme in six eastern states in 1984/85 is beginning to show results. Its aim is to raise productivity from 1-1.5 to 2 tonnes per hectare. (Punjab already produces 3 tonnes per hectare.)

Efforts are also being made to spur faster growth of the poorer-performing crops. In 1986, Mr Rajiv Gandhi launched a "Technology Mission on Oilseeds". This will aim to improve crop technology, farm support systems and price incentives in 180 districts spread over 17 states.

Food security at the household, rather than merely the national, level, however, is likely to require a much bigger shift in resources from richer to poorer states than presently seems politically feasible. In particular, it awaits a massive extension of irrigation.

Michael Prowse

Forestry

Dangerous depletion

GLANCE AT A TREE in India and, if it is near a road or a village, the chances are it will be misshapen. The lower branches may well have been lopped off for sale as firewood. Wood is an enormously important energy source in rural India, and this is one of the reasons why its forests have been dangerously depleted in recent decades.

Around 23 per cent of India's total land area - 75m hectares - is officially described as "forests". But the World Bank estimates that owing to increasing depletion and degredation only about 40m hectares is actually tree-covered. India has squandered more of its timber resource than any developing country in south east Asia, with the possible exception of Malaysia.

The scale of deforestation reflects the fact that non-commercial energy sources - mainly fuelwood but also animal dung and agricultural wastes - account for 80 per cent of rural households' energy consumption and well over 50 per cent of India's total energy consumption.

The pressure on the forests seems set to intensify. By the year 2000, the total annual fuelwood demand may have doubled. If industrial timber demand is added in, the total wood requirement by then could amount to the equivalent of 20-30m hectares of mature plantation.

The Government recognises the imperative need to prevent further degradation of the official forests. Over the years it has learnt that this is best done by encouraging the active participation of local communities. "Social forestry" projects, which are backed by the World Bank, aim to increase the production of fuelwood on farm, village and communal lands. The hope is that if the rural poor can be put in a position to satisfy their own fuelwood requirements, they will stop ravaging the reserved forests.

To date, social forestry projects have had mixed results. Individual farmers have proved keen foresters: between 1979 and 1984 over 500m seedlings were planted on individual plots in the state of Uttar Pradesh alone. This contrasted with a target of only 8m seedlings. But attempts to persuade villagers to establish communal woodlots have flagged badly.

But the wood produced by individual "farm foresters" has not been used to meet the local fuel needs of the poor. Instead, it has been sold for profit on the commercial market. And the degredation of the forests has continued.

Thus although social forestry projects are boosting India's total wood production, they are not yet doing much to meet the needs of the poor. Many of the new foresters are very far from being marginal farmers eking out a subsistence living.

Indeed, one doctor with a eucalyptus planation in the village of Anwarpur in Uttar Pradesh seemed to look at trees in much the way that certain Manhattan physicians look at Wall Street stocks. He said he had no intention of planting any more eucalyptus seeds because the prices had topped out and he could make a much better return with more conventional agricultural crops. Having made his point, he proceeded to entertain a visiting World Bank team to drinks in the shade of a pleasant grove of poplars.

It is hard to help the really poor in Indian villages because they lie at the bottom of a rigid social hierachy. Landless labourers stand to get little benefit from a community woodlot scheme if the village leaders sell the wood commercially and use the cash to further their own pet projects. To counter this type of problem, state forestry departments, with World Bank guidance, are pushing the concept of "micro-planning".

A micro-plan, says Dr Ajit Banerjee, a Bank forestry specialist, starts by establishing "the land, leadership and financial resources of a village". In drawing up a plan, officials talk to all sections of village society and try to establish their needs. The aim is to persuade the village leaders to agree an equitable distribution of the eventual harvest before the seeds are planted.

Micro-planning also aims to bend technology to meet the needs of the rural poor rather than vice versa. The technically most efficient strategy, for example, might be to harvest a plantation only every seven years and allow no pruning in the interim. But this would not be an optimal social strategy because it would ignore villagers' ongoing fuelwood needs.

This new approach makes a lot of sense in theory. But it is far from clear that it will work in practice. Farm forestry caught on because it appealed to the self-interest of individual farmers. A micro-plan that serves the interests of a whole community calls for effective cooperation, a commodity that may be in shorter supply.

But Dr Banerjee points out that a communal forestry project on a scale much larger than anything contemplated in village microplans has already proved a great success. In 1972, 450 families in 11 villages in West Bengal were persuaded to co-operate in rehabilitating 1300 hectares of totally degraded government forest.

The rehabilitation scheme made allowance for their continuing firewood needs and, more importantly, offered them a 25 per cent share in all future produce. The villagers are now the happy owners of a $2.4bn stake in what is the some of the most luxurient forest in West Bengal. Each family can thus expect an income in perpetuity of around $700 - a fortune in rural India.

If India really wants to turn the tide of deforestation, suggests Dr Banerjee, it must promote ambitious communal projects of this type.

Michael Prowse

Drought no longer means national (though it can still mean personal) disaster

Efforts to combat monsoon failure

THE DROUGHT that has afflicted India this year is quite possibly the most severe since 1877. The rainfall pattern between June and early September was more adverse than in 1965 - the worst drought year since Independence. In many regions the summer kharif crop was devastated.

But whereas droughts under the British Raj spelled mass starvation, deficient rainfall after 40 years of self-rule represents at the national level no more than a serious economic setback.

India, in spite of a projected shortfall of almost 15 per cent in food production (as compared with targets), will not require massive food aid of the kind supplied by the US in the mid-1960s. The spread of irrigation and the use of high-yielding seeds have helped amass a buffer stock of foodgrains which peaked at around 23m tonnes in the summer (it is now down to 17m tonnes). Imports of some items, such as edible oils, have shot up; the overall impact on the balance of payments could be negative to the tune of $1bn-$1.5bn over a period of 12 months.

No section of Indian society has been able fully to insulate itself from the drought. Prosperous city dwellers and foreign tourists admittedly have experienced little more than mild inconvenience - power cuts, price rises and occasional shortages of particular items.

But for millions of marginal farmers and landless labourers, the drought has spelled personal disaster. Coming, as it has, after three morale-sapping years of poor monsoons, it is forcing many small farmers to sell their livestock (those animals that have not already perished), abandon their land and vainly seek work in the congested urban districts. Drought is cruelly underlining the scale of Indian income inequalities.

Desert-like conditions in western states like Rajasthan and Gujarat have ironically gone hand-in-hand with chronic flooding in eastern states such as Bihar and West Bengal. As always, India's problem is less a shortage of water than its maldistribution.

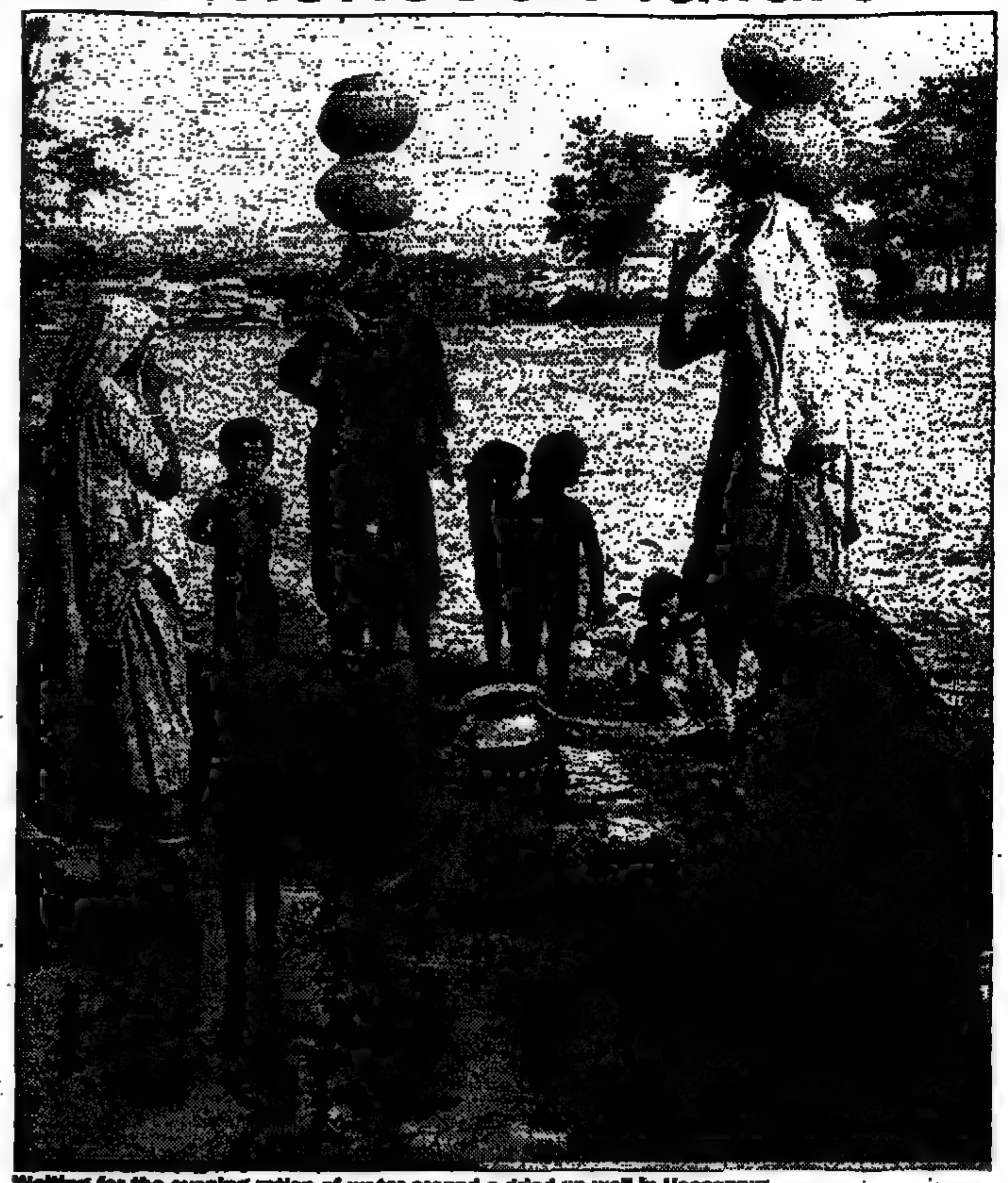
Officials in Delhi have been reluctant to make firm estimates of the drought's full economic impact. Hopes that the rabi (winter) crop will make up much of the ground lost in the summer appear to be fading. This is despite the fact that winter crops are less dependent on rainfall than summer crops.

The Government is putting into effect emergency relief measures that will cost around £250m in 1987/88. This is being paid for out of the budget contingency reserve, the cutting back of other spending programmes, and special surcharges on taxes paid by the wealthy. However, it is far from clear that the resources being set aside are sufficient or that the relief will actually reach the most needy.

The drought is putting the subsidised public food distribution system to its most severe test yet.

Although the number of "fair price" outlets has risen sharply during the 1980s, the geographical coverage is still patchy. Nobody doubts, however, that India is better placed than ever before to combat monsoon failure.

MP



Waiting for the evening ration of water around a dried-up well in Hassanpur

Macroeconomy

Drought doubts

AFTER SEVERAL years of surprisingly robust growth, the Indian macroeconomy is running into trouble. An act of God in the shape of the worst drought for a century has blackened the short-run outlook. But there are also two disturbing medium term trends - rapid growth of government current expenditure and structural weakness of the balance of payments - for which the Government cannot avoid responsibility.

The net effect of the drought on economic growth in 1987/88 is still uncertain. The Government's "best guess" is that growth will be reduced from around 5 per cent to perhaps as little as ½ per cent. Private sector forecasters are even gloomier.

It is easy to understand the origin of the gloom. Agriculture still accounts for about 40 per cent of GNP. Thus if farm output were to fall, say, 10 per cent (and this could be a conservative estimate), the direct effect would be a 4 percentage point reduction in GNP. To get the total impact of the drought, however, you have to add in many indirect or "multiplier" effects.

Power production, for example, has already been significantly affected by low rainfall. And falling agricultural incomes will inevitably lead to a loss of demand for industrial goods. If these factors are taken into account, it is certainly not fanciful to suppose that GNP could fall this financial year.

By creating shortages of key foodstuffs and a psychological climate conducive to hoarding, the drought is also greatly exacerbating inflationary pressures. The trend was already adverse: wholesale prices rose by 5.3 per cent in 1986/87 compared with under 4 per cent in the previous year, and this was despite the benefits of lower oil prices. This financial year, inflation is widely expected to exceed 10 per cent. Quite apart from exceptional cost pressures, some critics are concerned by monetary growth of around 17 per cent a year.

Officials are also having to contend with the budgetary burden of emergency drought relief measures costing around Rs20bn. About a third of the cash has been raised through tax surcharges on the well off with the rest supposedly coming from the budget contingency reserve and cuts in other spending programmes. The stated intention is to hold central government's deficit within the Rs5.7bn ceiling set by Mr Gandhi earlier this year.

This looks a tall order. Last year's deficit came in at Rs8.2bn, roughly 3.5 per cent of GNP. Deficits of this size are far larger than envisaged in the 7th Plan (which covers the 5 years starting in 1985/86) and reflect persistently faster growth of current expenditure than receipts. The Reserve Bank worries publicly that the deficits are pre-empting resources earmarked to finance economic development.

The higher deficits are worrying the planners not just because India has a long record of fiscal prudence, but because they are occurring in spite of a successful tax reform that has greatly boosted revenues. The central government's tax to GNP ratio rose from 10.9 in 1984/85 to 12 in 1986/87.

An improvement is needed in high value-added trade

The problem is that non-plan (in other words non-developmental) expenditure rose even faster - from 10.2 per cent of GNP in 1984/85 to 13.3 per cent two years later. Three main items account for the spending overshoot: subsidies for food, fertilisers and export promotion, which have risen 35 per cent in the first three years of the plan; interest payments on government debt, which have risen by 78 per cent; and defence expenditure, which has soared by 88 per cent.

None of these will be easy to rein back. The drought is increasing the pressure for farm subsidies; rising inflation and deficits will exacerbate the interest burden; and internal and external security threats appear to justify the military's demands for greater resources.

No student of India's economy will be surprised to hear that the balance of payments is the third source of macroeconomic concern. It has been a worry for policy makers for most of the past 40 years. The seventh plan envisages a current account deficit averaging about 1.6 per cent of GNP. But in 1985/86, it soared to 2.4 per cent of GNP.

There was an apparent improvement last year, when the deficit contracted by 0.5 per cent of GNP. But the reduction was partially fortuitous: India's oil import bill shrank by Rs2.1bn (more than the improvement in the current account) as a result of lower international energy costs. This year, the drought is imposing fresh strains.

Export performance, it must be said, has been relatively encouraging in the past 18 months. In 1986/87, volumes rose by about 7 per cent after stagnating in the previous year. The early indications for 1987/88 suggest continuing buoyancy. This is a big improvement on the sixth plan period (1979-84) when exports grew only about 2-3 per cent a year in real terms.

Much of the buoyancy, however, *reflects the strength of unexciting industries.* Gem and jewellery exports rose by 37 per cent in value terms last year while exports of leather goods shot up by 61 per cent. India has yet to show a decisive improvement in high-tech, high value-added trade.

The recent faster growth of exports doubtless owes something to various government measures introduced since the turn of the decade that aim to increase the relative attractiveness of production for foreign markets. But it also reflects the adoption of a more flexible exchange rate policy. The rupee is still overvalued, but less so than in the past. The Government is no longer simply trying to keep it stable against a trade-weighted basket of currencies. It wants to ensure that exporters remain competitive relative to their rivals in other Third World countries.

Even if the better export performance proves durable, the benefits may be swamped by other adverse balance of payments trends. Non-oil imports, particularly of intermediate goods, have surged in recent years - an inevitable side-effect of the moves to liberalise and modernise domestic industry. At the same time, the loss of concessional finance, the bunching of repayments on foreign debt and falling remittances from Indians abroad are taking their toll.

In 1979/80, less than 1 per cent of India's foreign debt was owed to private creditors; by the end of 1986/87 the ratio was an unprecedented (for India) 22 per cent. The debt service ratio has risen from low single figures to 25 per cent. There is talk of its rising above 30 per cent in the 1990s.

If India wants to prevent balance of payments constraints slowing growth in the medium term, it may have to take much more decisive steps to boost exports and raise its microscopic share of world trade.

Michael Prowse

Aid

Short term increase

MENTION THE subject of foreign aid and Indian officials are likely to launch into a diatribe about the miserliness of industrialised nations. This year, however, the complaints have less force than usual. First World donors have responded to India's drought by offering more than additional or accelerated aid payments.

India has been promised receive aid totalling around $5.5bn in 1987/88, compared with an original World Bank target for the Aid India Consortium of donors of $4.8bn. This is a sizeable increase on last year's concessional finance, even after allowing for dollar depreciation and domestic inflation.

Japan has been particularly generous. In September it announced that it would donate almost $500m this financial year compared with an earlier commitment of $45m: this makes it easily the largest bilateral contributor. The US in comparison is offering only $134m.

In addition to offering more aid, the bilateral donors and multilateral institutions like the World Bank are also offering to speed up the disbursement of soft loans and grants. Cash is being redirected to projects in regions particularly affected by India's severe drought. The faster deployment of previously agreed grants and loans is of the greatest importance given the backlog of "unused" aid.

The increased aid flows in the short run are encouraging, but do little to invalidate India's claim for enhanced access to concessional finance in the medium term. One argument for higher aid, stressed by the World Bank, is that India is struggling to liberalise and modernise its domestic economy. These efforts - in concert with other factors - have put the balance of payments under strain, partly because they have necessitated higher capital goods imports.

In putting the case for increased aid, Mr ND Tiwari, the Finance Minister, points out that India's share in total concessional assistance has declined from 15 per cent in the 1970s to 7 per cent in 1983. He is certain that the adverse trend has persisted in more recent years.

India has suffered because of the diversion of IDA money (assistance extended by the World Bank on very soft terms), first towards China and more recently towards sub-Saharan Africa. IDA flows to India peaked at $1.5bn in 1979/80, but are likely to total no more than $800m in 1987/88.

In the past, 70 per cent or more of the World Bank's total assistance to India was provided on soft IDA terms. That ratio is now down to 30 per cent; the rest of the "aid" comprises loans on near commercial terms.

Indian officials are irked because the relative decline in aid for India cannot be justified on any of the traditionally-accepted grounds for allocating developmental assistance. India scores highly on all three of the main criteria, which are: extent of poverty; effectiveness of aid utilisation; and creditworthiness.

There are more people living in absolute poverty in India than in Latin America and Africa put together. At the same time, India is widely regarded as an effective user of aid. Unlike most developing countries, it possesses a well-organised and well-educated bureaucracy that that is able to debate issues on equal terms with organisations like the World Bank.

Considerable efforts are made to ensure that aid does not distort economic decisions in the domestic economy. As one UK official puts it, "they suck out the concessionality". In other words, the final users of aid are not normally allowed to get goods at subsidised prices - the assistance is deployed at the centre to top up the domestic capital available for development.

India has studiously avoided the debt-trap into which most developing countries have fallen headlong. It has sacrificed growth and taken an extremely cautious line on commercial borrowing in order to remain creditworthy.

"On these criteria," says Dr Shankar Acharya, an economic adviser at the Finance Ministry, "we ought to get five times the aid we receive. The Africans get $30 per person, in India the flow is under $3. Yet a poor man is a poor man."

The harsh reality, of course, is that aid is allocated not according to the needs of recipients, but according to the preferences of donors, which are politically determined. India suffers because of its deliberate non-aligned political stance, which alienates Washington.

It also gets a low per capita share of assistance simply because nations, illogically, are regarded as the appropriate recipients of aid. A very big country with lots of very poor regions is bound to do worse than a small poor country: if India's many states were able to apply individually for international assistance, the country as a whole would do much better.

Michael Prowse

Profile: Finance Minister

Safe and predictable

Mr Tiwari: nothing if not politically experienced

"PROFESSIONAL politician", "Congress Party stalwart", "Loyal pragmatist". These are the kinds of slightly dismissive remarks one hears about Narayan Datt Tiwari, the former Chief Minister of Uttar Pradesh who became Finance Minister on July 25.

White-haired and white-robed, Mr Tiwari in the flesh possesses considerable personal charm. But he is hardly the sort of man to arouse passions: he lacks the intensity and idealism of Mr VP Singh, his predecessor. Mr Singh, who has been touring the country making trouble for Mr Rajiv Gandhi, succeeded against considerable odds in radically reforming India's chaotic tax system.

It is hard to imagine Mr Tiwari pushing through anything radical. Indeed, some diehard liberals argue that he is already undermining Mr Singh's fiscal policies. The finance ministry recently announced rises in income and wealth taxes, the aim being to raise extra revenue from the rich to pay for drought relief measures. This makes perfect political sense, but Mr Singh managed to boost revenue by *lowering* marginal rates and improving compliance.

Where Mr Singh was creative and reforming, Mr Tiwari is safe and predictable, qualities that Mr Gandhi perhaps needs just at the moment. In a British context, it is as though Mrs Thatcher, sensing a loss of support for free market policies, were to replace Mr Nigel Lawson as Chancellor with a senior and experienced Conservative figure such as Viscount Whitelaw.

Mr Tiwari is nothing if not politically experienced. In a career spanning four decades, he has held numerous cabinet level jobs in his native state of Uttar Pradesh, culminating in the chief ministership. At the national level, he has been deputy chairman of the Planning Commission (where he helped formulate the Sixth Plan) and held the labour, industry, steel and mines, oil, and external affairs portfolios.

In the short term he faces a rough ride. The severe drought has forced up government spending and prices. The finance minister will be lucky if he avoids a serious over-shoot of the planned public sector deficit and he will probably have to contend with double digit inflation.

Longer-term, Mr Tiwari is likely to favour only extremely cautious economic reform. He bridles at the word "liberalisation". The changes introduced since 1985, he maintains, are a form of "rationalisation". He favours the "pragmatic implementation of time-tested policies".

He stoutly defends the system of centralised state planning: "What would happen to the backward areas in a country as big as India if we did not plan for economic development?" he asks. "Would anybody advocate that industries be confined to a few pockets of prosperity?"

Mr Tiwari is dismissive of arguments for a change in the balance between state and private enterprise. There is no demand for privatisation in India, he maintains, not even from the private sector. "India's problem," he maintains, "is that private units go sick and demand public sector assistance. If you look at the press, you will see that the demand is for nationalisation."

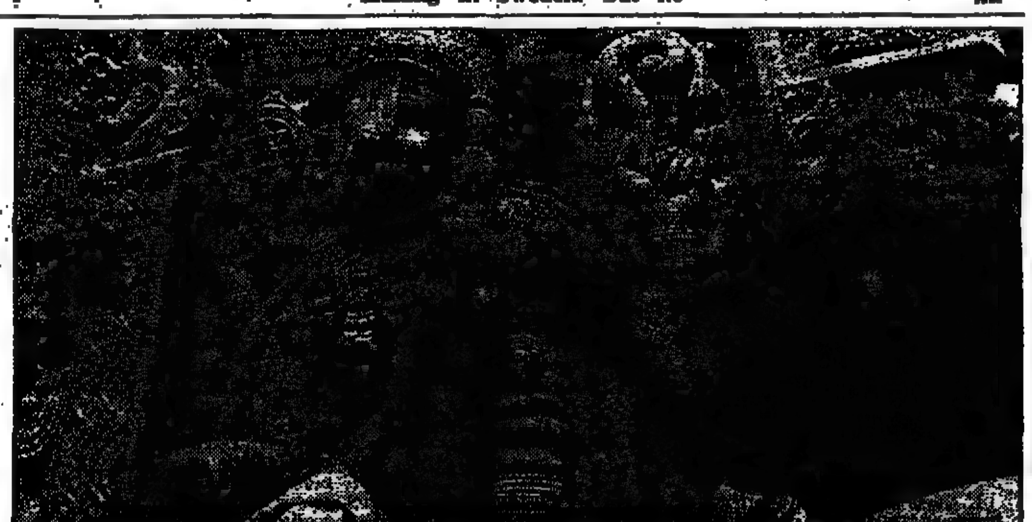
Whatever else, Mr Tiwari cannot be accused of having a narrow outlook. He has travelled widely - for example, to study dairy development in Denmark, co-operative banking in West Germany and economic policy-making in Sweden. But he remains convinced that India's problems are unique to India and cannot be solved by adopting somebody else's system.

What saddens him most is the way that attitudes towards concessional assistance have hardened in the industrialised countries. What happened, he asks, to the 19th century slogan "conservatism at home, liberalism abroad?"

MP

Tourism

Drying the tears



Craftsman working on tusk at the Natesan's Antiquarts Factory, Bangalore

INDIA IS just beginning to give tourism, which is a major earner of foreign exchange, the priority it deserves and needs if the country is to realise its potential as one of the world's great holiday destinations.

The aim, in the words of one holiday organiser, is for India to lose its reputation as a centre for "tourism with tears" and instead capitalise on its potential of spectacular historic buildings, unspoilt beaches, and specialist activities ranging from skiing to river rafting and camel treks.

Increased foreign equity is to be allowed in hotels, attracting names such as Novatel, Ramada, Quality Inns and Meridien. A tourist finance development corporation is being set up with an initial Rs1bn ($45m) and tourism has been officially designated as an industry which can bring various benefits.

Airline charter flights are being allowed in and about 1,000 luxury cars are being imported for tourist use, in addition to foreign-made air conditioners for coaches. Even casinos have been mooted.

The government has realised that domestic tourism can increase national unity

Last year the number of tourists including businessmen entering India topped 1m for the first time (after being inflated by the inclusion of several thousand airline crews) and the target is 2m-2.5m by 1990. This excludes another 400,000 from neighbouring Pakistan and Bangladesh.

But the country is not yet equipped to cope with such numbers, especially during the peak November-February cool season which is popular for both business and tourist travel. Major hotels in Delhi, Bombay and other tourist centres are constantly over-booked, exposing ingrained inefficiencies which permently exist in some five star hotels just beneath a superficial glitter of charming service.

Indian Airlines, the internal air carrier, is also chaotically overbooked and has poor facilities, and road transport is inadequate and uncomfortable.

The problems stem partly from India's protectionist economic policies which until relatively recently have blocked both foreign investment and the import of modern hotel equipment and road transport. There has also been general resistance to an influx of foreigners which might harm India's culture and rural life and it people's morals.

These attitudes are changing, partly because of the foreign exchange potential. But the government has also realised that domestic tourism, which has scarcely existed till recently, can increase national unity.

"If people travel around India, which has been rare in the past, they will learn more about people in other parts of the country," says Mr Rabindra Seth, group editor of Destination India magazines. "So instead of building up tourism solely with foreign visitors, the aim now is to build a base with domestic tourism and grow from there."

The number of foreign tourists grew from 16,800 in 1951 to 465,300 in 1975 and 800,000 in 1980. There was then little growth, partly because of security scares following the assassination of Mrs Indira Gandhi in 1984. Last year the figure rose to 1.08m, including the air crews, and is expected to reach nearly 1.2m this year. Foreign exchange earnings increased by 21.9 per cent in 1986-87 to Rs17.8bn from Rs14.6bn a year earlier.

The earnings could be far higher if the government relaxed its control of top hotel prices which have not risen significantly in international terms during the 1980s because the falling value of the rupee against sterling, the dollar and other major currencies has more than offset increased prices. The top single room rates in most five star hotels in Bombay and Delhi are now around $100 a night (Rs1,240-Rs1,450).

There are now 35,000 hotel rooms in the country, with another 13,000 under construction. This makes a total of 48,000 which is 9,000 short of the total the industry says is needed to cater for anticipated tourist growth by 1990. There is also a major need for good two, three and four star hotels. A shortage of economically priced land is the main brake on expansion.

Tourism has been designated an industry by the central government. But it is up to individual states to implement this and turn it into real benefits in terms of provision of sites and facilities because tourism, under India's constitution, is a subject controlled by the states, not the centre. So performance is patchy with states such as Jammu and Kashmir, Rajasthan, Haryana and Orissa doing well, but many others lagging.

No foreign equity stake was allowed in hotels till 1980 when a ceiling of 30 per cent was set, with a higher figure for non-resident Indians. This has now gone up to 40 per cent and 51 per cent is being mooted by Mr Jagdish Tytler, Aviation and Tourism Minister.

Most of the existing handful of foreign tie ups with companies such as Sheraton, Intercontinental and Holiday Inn only involve marketing arrangements. This is now changing with the new names coming in, and it is hoped that standards in all grades of hotels will then improve.

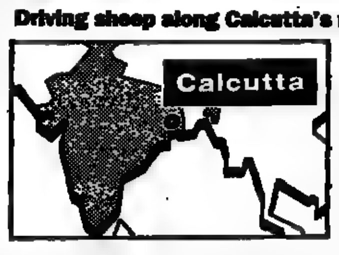
John Elliott

3: Three major cities

A report on Calcutta and, on the next page, Bangalore and Madras

Poverty and past glory

Driving sheep along Calcutta's main street



BRITAIN'S PAST lies buried in Park Street, Calcutta. There, in a cemetry full of Roman cupolas, Grecian urns, ornate pillars, and other extravagant mausoleums, are the graves of several hundred British men - with their wives, girl-friends, and children - who ran India when it was becoming the jewel of the British empire.

Among countless civil rulers, army and navy officers, their wives and their children, are the remains of Lady Anne Monson, great grand-daughter of Charles II. She was famous for her heavy-gambling whist parties in the 1770s, although, like many others, she died of disease soon after arriving. Rose Aylmer, who was sent away from her lover in Wales, the poet Landor, to live with an aunt in Calcutta, died of cholera after a year in 1783.

There is a Major General Charles Stuart, who became a Hindu, Captain Edward Cooke, who died in a naval action on Calcutta's Hooghley River in 1799, and John Savage of the Bengal Civil Establishment, who died in 1808 at the age of 23. His tombstone says he was "cut off from this world by a malignant disorder".

It was these people and their families who helped to build Calcutta from a group of villages on the Bay of Bengal into the thriving elegant capital of the British Raj, setting a style of grandeur and opulence which is still evident behind the peeling paint and broken shutters.

Today, however, the city is an inhumanly over-crowded metropolis, the capital of Communist-run West Bengal, with a population of over 10m including at least 300,000 living permanently on pavements and 3m in slums called *bustees*.

But there is still a massive ornate white marble memorial building to Queen Victoria housing a museum. There is a city-centre racecourse and numerous self-conscious clubs continuing old traditions, a cathedral and parish churches, large once-regal hotels (the best, the Oberoi Grand, now restored), oriental gardens, and a magnificent governor general's residence which is modelled on an English stately home, complete with wrought iron railings and a gravelled drive. It is still called Raj Bhaven and is occupied by the governor of West Bengal.

And there are long streets of grand commercial buildings in European port-city style, complete with shutters, pillars, detailed bow-windowed corners, towering above the gloom and poverty below. They are all left dirty and peeling, allegedly because their owners want to avoid a show of wealth that could attract the tax man - though there was a rare cleaning up, and street beggars were moved off main roads, for the Australia-England world cricket cup final earlier this month.

With this unique history, West Bengal has broken away from the political mainstream and shunned the Gandhi family's Congress Party, adopting Communism instead.

It was not only the British who lived in style in the eighteenth and nineteenth centuries. Among the native Hindu Bengalis there were also the Baboo caste of merchant princes, dominated by the Mullick gold dealer sub-caste. They squandered their wealth on ornate marbled palaces where their heirs still live in dusty fading splendour, an anachronism in the midst of Calcutta's teeming back streets and bazaars.

Then there were the Bhadralok (gentle folk), who worked for the British. As true Bengalis they became poets and middle class intellectual converts to Communism, disillusioned when their livelihoods evaporated after the British capital moved to New Delhi in 1911.

The wisest were the Marwari money lenders and traders, who originated in the Western desert state of Rajasthan. They built a commercial power base and saved their money which they have used throughout the 40 years of independence to take over the assets of British companies and generally to expand till they dominate Indian industry.

But along with the Baboos and Bhadraloks, Calcutta has declined. Its population problem has been worsened by hundreds of thousands of refugees from what is now Bangladesh. And like the UK in a European context, it suffered from being at the forefront of India's industrial revolution because its industry became old, over-manned, and run by tired managements.

Bengalis are not assiduous industrial workers - most manual labour is imported from the nearby states of Bihar, Uttar Ptadesh and Orissa. This means that a lot of the labour, as well as the Marwari entrepreneurs, take much of their money out of the area.

"This imported labour is not good at modern machinery, let alone high technology, so it has always been easier to increase the labour on low wages rather than mechanise and modernise," says one industrialist, explaining widespread poor productivity. Others disagree and say modern equipment does boost productivity.

The problems have been compounded by appalling electricity shortages, chaotic road conditions, chronic over-population, and a high birth rate, plus other infrastructure problems.

With all this unique history, Calcutta's state of West Bengal has broken away from the political mainstream of India and shunned the Gandhi family's Congress Party, adopting Communism instead. Only two other Indian states - Kerala in the far south, and Tripura further to the north-east - have followed this path.

In the 1960s West Bengal's first left-wing government sparked serious labour unrest and accelerated the industrial decline. But after the current Communist Chief Minister, Mr Jyoti Basu, came to power in 1977, he gradually introduced a pragmatic approach, mediating in labour disputes, improving the electricity supply, and encouraging multinational and other industrial investment, while at the same time pursuing other more left-wing policies.

"We have a different approach to planning from the national view which accepts the existing distribution of assets - industry, agriculture and land - so that the top 10 per cent of the people own more than half the land, while the bottom 10 to 15 per cent are virtually landless," says Dr Ashun Dasgupta, a left-wing economist who is the State's Finance Minister.

Dr Dasgupta argues that land reform, by creating employment, "creates purchasing power and so gives a potential for massive industrial growth" in areas like textiles which are vastly under-utilised.

He also claims to be doing more than other states to encourage small labour intensive industry. He says the state wants this to be a feature of down-stream projects envisaged for a $1.14bn petrochemical complex to be built by the state government in partnership with the large Marwari Goenka family and foreign partners at Haldia. This is a rare large-scale industrial project for West Bengal.

Calcutta's past glory will not be revived. It has gone, along with the people of South Park Street cemetery whose tombstones are now being rescued from vandals by companies with names which also symbolise Britain's past such as Shaw Wallace, Dunlop, Grindlays, and McNeill and Magor.

The future prosperity of the city and the state of West Bengal depends on a partnership between the private sector and the Left Front Government. They have the power to decide whether investment comes back to restore some of the former wealth in a more equitable form, helping to alleviate at least a little of the apparently incurable poverty.

John Elliott

Calcutta's industry

Sick list lengthens

CALCUTTA'S CLOGGED and chaotic arterial roads cut through the heart of the city's paralysed industrial districts. Parts of the city which, in their heyday, were known as the Manchester and Sheffield of India, have become store houses for antiquated textile and engineering machinery fit only for industrial museums.

The decline has forced the closure of 80,000 companies in West Bengal during the past 20 years - the majority in Calcutta's small and medium-scale sector - and the fate of thousands of others rests on the mercy of factory owners.

Although about two-thirds of India's industrial shutdowns have taken place in West Bengal, the problem of so-called industrial sickness has a national character. Due principally to a combination of the failure to modernise, poor management, power shortages and industrial unrest, about 130,000 Indian companies have been operating at a loss for at least four years, with government support their only source of survival.

In recognition of the severity of the problem and its drain on the national purse, central government last January established the Board of Industrial and Financial Reconstruction.

Calcutta's squalid industrial wastes will be a major area of concern for the board as it takes what Mr R Ganapathi, the chairman, calls a "more objective" view of determining whether sick companies are worthy of the Government's financial support.

The city's jute industry is in the grip of its worst-ever crisis with 22 of its 54 plants shut down and 10 others on the verge of closure.

Mr SK Bose, the mill manager of a closed jute factory, remembers tennis days on the company's courts and dinner dances hosted by the Scottish manager during the heady days of buoyant demand and high efficiency in the 1950s.

Today, the exterior walls of many of these large-scale factories are covered with crudely painted hammers and sickles and Bengali script urging sacked workers to fight for the re-opening of the factories and to support the demands of Mr Jyoti Basu, the Communist Chief Minister and Industry Minister of West Bengal.

Mass street protests by thousands of the unemployed regularly add to Calcutta's politically charged atmosphere and render large sections of the city impassable, even to the most determined taxi drivers.

This industrial unrest lays bare the gulf between the industrial policies of Mr Basu and the central government which has created an impasse that has sentenced many other factories to a slow death.

Mr Basu, who was formerly the leader of the largest jute workers' union, is calling for the nationalisation of the sick industries in his state. He sees this as the only way that vital funds, withheld by factory owners since the election of the Communist Party to power a decade ago, will be injected.

Financial backing or nationalisation will no longer be virtually automatic

He argues that during the 20 years after independence, employers ignored the need for modernisation that would have ensured long-term viability. Instead they pursued large, short-term profits.

The West Bengal Government has taken over full control of 10 closed factories and is attempting to revive them by channelling state-funded work in their direction. However, Mr Basu admits that progress has been chequered and he does not rule out the possibility of closure if long-term targets are not achieved.

Factory owners argue that the crisis has been caused by excessive wage demands. The wages of industrial workers in West Bengal have risen by up to 33 per cent during the past five years. That, owners say, has placed a crippling burden on the already marginal existences of their enterprises. Unions counter that wages have simply kept pace with inflation.

Delhi has thrown the Calcutta jute and textile industries a lifeline in the form of development funds to modernise production. However, this has met with a weak response from employers who are unwilling to take on additional loans until productivity agreements are reached with unions.

Such accords would lead to the retrenchment of a further 20 per cent of the workforce. Mr Basu will not entertain an accord on these terms and argues that modernisation should stimulate a broad industrial expansion, creating further employment opportunities.

Similar, although less vitriolic, debates are raging in other states where a growing number of companies are in trouble. The states of Gujurat and Maharashtra have more than 200 large-scale sick companies in the sugar, iron and steel and electrical sectors - they have been recording losses for at least four consecutive years.

According to Mr Ganapathi, there are 700 large-scale enterprises nationally with losses exceeding shareholders' funds and reserves. These companies have been receiving life support grants from central government through official agencies.

Mr OP Acharya, President of the National Society for the Prevention of Industrial Sickness, estimates that 8 per cent of India's total bank credit is locked up in support grants for sick companies.

This represents 17 per cent of bank credit to industry. The storage of such a large slice of the country's scarce financing funds is hampering industrial expansion into profitable areas as good money is thrown after bad. Since independence, central government has justified soft loan support for these industries on the grounds that they assure the continuation of employment in deprived areas of high unemployment.

However, the creation of Mr Ganapathi's board is a clear indication that Delhi has seen the need to reassess its previous policy of support at any cost. The chairman says that his board will examine requests for support from a more profit-oriented perspective with forced closure more likely if companies do not meet the criteria set in order to qualify for support.

A policy document on the role of central government in financial support schemes, released earlier this year, strongly recommended that the nationalisation of sick private sector companies, which was a common practice, should be undertaken only after alternative means of rescue had been exhausted.

Mr Ganapathi makes it clear that financial backing or nationalisation will no longer be virtually automatic. The establishment of the board and a more critical assessment of how industrial support should be allocated is long overdue.

But until there is greater co-operation between state and central governments and unions the sickness which has reached epidemic proportions in Calcutta will continue to spread through the feeble industries of other states.

Ray Bashford

Bangalore is set to become India's Silicon Valley, reports **Alan Cane**

City of beans takes on the chips

BANGALORE, the city of the beans in the local Kannada language, is set to become India's first city of the microchip.

An important garrison town and administrative centre - the "Civil Lines" - in the days of the British Raj, it is the capital of Karnataka state and now a major manufacturing centre in southern India: "attracting industry" according to one account "as Vienna attracts music lovers".

These days the emphasis is firmly on the microelectronic industries, giving the old Kannada name a fresh relevance - "beans" or "jellybeans" are slang terms in the US for microchips in their shiny plastic covers.

Bangalore is, however, making a virtue out of necessity. It favours electronics because a chronic shortage of water and electrical power has effectively put the brakes on further development of heavy industry in the area.

The list of major firms based in and around Bangalore includes Hindustan Aeronautics (HAL), Bharat Electronics (BEL), the SAN Engineering and Locomotive Company and Hindustan Machine Tools.

In 1983, however, as pressure on resources grew unbearable, the state government, controlled by the opposition Janata party, agreed that heavy industry must give way to electronics, environmentally cleaner and with more modest demands for power.

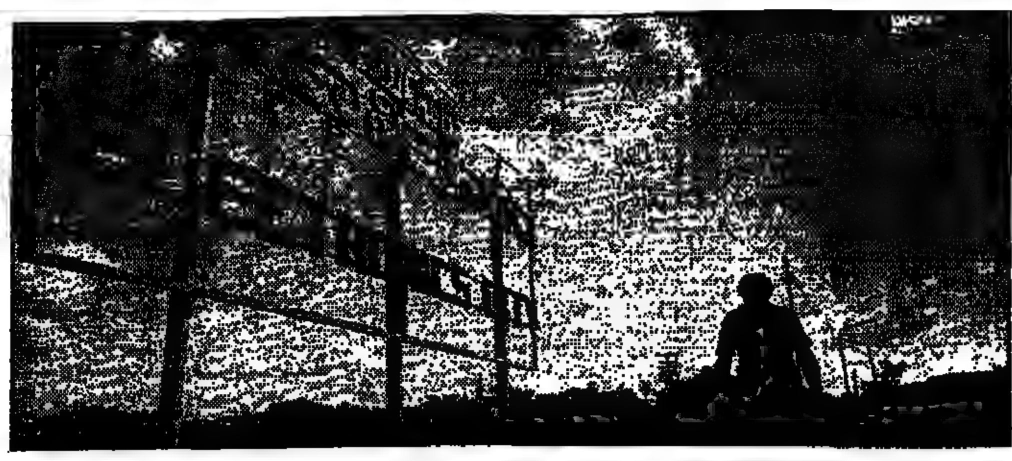
The result, according to Mr KNS Murthy, commerce and industry secretary to the state government, is that 30-35 per cent of India's entire electronics output now comes from Bangalore.

Its wide thoroughfares and verdant open spaces are steeped in history. Founded in the sixteenth century, it was an important fortress town under Hyder Ali and his warrior son, Tipu Sultan, the blackened timbers of whose summer palace still stand on Albert Victor Road.

There is a wealth of distinctive old buildings which architectural enthusiasts like Mr TP Issar, director general of the Karnataka Bureau of State Enterprise, are enthusiastically working to preserve and restore.

The most abiding evidence of the British Raj, however, is the 118-year-old Bangalore Club, one of the earliest and finest in India.

It owes its newly decorated look these days, however, to its use in the film Passage to India. A popular venue for evening drinks and Sunday lunch with Bangalore's upper crust, the club records show that the young Sir



Entrance to Electronic City: slow taking off

Winston Churchill, then a mere lieutenant in the British Army, left owing the club 13 rupees, a debt long since written off.

Young Winston's own notes reveal he enjoyed Bangalore's clean air, flowers, butterflies and, above all, its polo facilities.

Today, however, horse racing is the city's chief equine activity and the magnificent race course in the city's west end vibrates with noise and colour on the frequent race days. Although Bombay is the most westernised of India's principal cities, Bangalore is certainly the most continental; there is music, poetry, theatre and the opportunity to stroll in the magnificent Lal Baug gardens, designed, it is said, by Tipu Sultan himself.

It is well placed to become the hub of Indian electronics. It is already the home of Indian science with more than 30 institutes devoted to research and development, the first of which to be established was the prestigious Indian Institute of Science.

Now the list includes the Nettur Technical Training Foundation, the Indian Space Research Organisation, the Electronics and Radar Development Establishment and the National Aeronautical Laboratory

With such an array of scientific and technical talent on hand, the city has also been blessed with a kindly climate and an enlightened state government.

Its leaders have for years, nurtured a vision of industry driven by public sector enterprise. India's first hydroelectric power was generated in Karnataka. As Mr Issar puts it, there was a "euphoric" 20 years of power in plenty when industry flooded into the state.

Just under a decade ago, however, the picture began to change. Villagers had been pour-

ing in from the surrounding countryside looking for work in the mills and Bangalore became India's fastest-growing city, a title it still holds.

The population is now 3.6m and growing at 100,000 a year. There are slums where there were green spaces. Water has become scarce as nearby lakes have dried out, their beds used to build houses for the exploding population.

Now the best hope is a long-term plan to supplement the city's inadequate reservoirs with water pumped from the Cauvery river, 60 miles to the south. Until then, water will be scarce and often rationed.

The shortage of power is at least as serious. The city has 2,700MW available to it at present and needs 3,500MW. Some 85 per cent of the total is derived from hydroelectricity.

The hope is that nuclear power will fill the gap, but city officials do not believe they can expect relief from that source for another eight or nine years.

Companies like Bharat Electronics, which cannot afford the frequent power cuts which afflict the city, have installed their own standby generators.

Despite these constraints, Bangalore is still recognised as the most favourable area of the country in which to establish an electronics business even if it has, in truth, the worst telephone system in India (Indian Telephone Industries has its headquarters there).

Skilled workers are readily available and the climate, physically and politically, is favourable. One much-travelled young engineer said: "It reminds me of Bournemouth in the UK."

Well, Bristol perhaps, rather than Bournemouth. Mr Padman Nambiar, an electronics graduate from Bangor, University of Wales, returned to India in 1983 to seek a site to establish his company, Namtech Systems. He chose Bangalore: "It was simply the most conducive place" he said. "The climate is splendid, the people are first rate and it is far more peaceful than the north; these are the things you need for the successful growth of an electronics company."

The peace has been marred in recent months by riots involving Muslims and Hindus, but, in general, Karnataka is free of the baleful tensions that envelope New Delhi.

Mr Nambiar is moving his manufacturing facilities from central Bangalore to "Electronics City" a specially-designated 300 acre site some 18 kilometres out of the city centre.

This is the heart of the state government's plans to develop electronics in Bangalore.

It is managed by Keonics, the Karnataka State Electronics Development Corporation. A unique organisation, it is part-manufacturer, part-promoter and disseminator of electronic technology, part-supporter of the small-scale entrepreneur and part-shelter for small-scale industrial units.

It makes, for example, hybrid microcircuits at Electronics City using Canadian technology, television tubes using Japanese technology, and printed circuit boards using US technology.

Companies which have committed themselves to sites at Electronics City include Indian Telephone Industries (ITI), Bharat Electronics (BEL) and the new and controversial Centre for the Development of Telematics (C-DoT).

So far, however, it has not been regarded as a success. "If this were Japan, there would be 100 companies on the site instead of the handful there now," one technologist complained.

Official reports note: "Keonics has been slow to take off. It has taken an unduly long time to give shape to its Electronics City and to the export processing component of it."

Dr S Srikantan, Keonics managing director, accepts that growth has been slow but argues that development has been hampered by government regulations, only recently repealed, which demanded the establishment of new electronics ventures in underdeveloped areas.

He expects that within a few years, Keonics' plans will be realised in full.

Among the schemes in hand is a common research and development facility on the Electronics City site which will give small companies much-needed access to the latest technology. Other plans include a 100 per cent export processing free trade area.

Bangalore's city planners are confident that India's garden city will not become another Bombay or Calcutta. Population growth will slow down when villagers realise there is no demand for unskilled labour; water will be provided and power will be generated, they say.

There are rumours that the climate is changing for the worse because of deforestation but long-term records suggest they are false. Officials, likewise, hotly deny that New Delhi gives Karnataka a less than fair deal because of its popular Janata Party leadership.

Bangalore takes all this in its relaxed, south Indian stride. For 2,000 years, Karnataka has been the source of all of India's gold. In the future, it is confident that its fortune can be built on silicon, the principal component of common sand.

Alan Cane

Mr Ramakrishna Hegde: proud of devolutionary reforms

Karnataka's chief minister

A man of influence

ALONG THE open airy balconies of Bangalore's monumental central secretariat, the people of the State of Karnataka queue for audiences with ministers and top civil servants. Despite local government reforms introduced earlier this year, they are continuing India's century-old traditions of exerting influence - corrupt or otherwise - on government decisions, by personally lobbying the most important people they can find.

Here Mr Ramakrishna Hegde, Karnataka's widely respected chief minister, sits every day at the pinnacle of the lobbying pyramid in the 30-year-old massive light grey building, known as the Vidhana Soudha. The architecture, described in guide books as neo-Dravidian, overpowers the gentle style of nearby British Raj buildings with an aggressive independent flourish of massive columns, pillared balconies, and domes.

By contrast Mr Hegde, a small, quiet, studious looking 61-year-old member of India's top Brahmin caste, quietly and adroitly hands out decisions, promises, and compromises to the rich, the pompous and the poor, while at the same time skilfully keeping his Janata Party Government in power in this southern Indian state of nearly 40m people.

"You see they still all want to come to this office to see me even though we have tried to devolve decision making down to the villages," sighs Mr Hegde, as the last of the morning's long line of supplicants bows and backs towards the door, the palms of his hands together in India's traditional *namaskar* greeting.

Mr Hegde is proud of the devolutionary reforms he introduced earlier this year to try to break down centralised power. He says it is one of the major failings of India's democracy since independence - and especially a failing of the dominant Congress Party - that most Indian states do not have regularly elected and realistically financed tiers of local government.

As a result, states which range in population up to the 125m of Uttar Pradesh in northern India generally have no local elections in rural areas and are basically ruled from their state capitals.

"Such concentrations of power mean red tapeism, corruption, misuse of power, arrogance of the rulers and a lack of accountability which leads to irresponsibility," says Mr Hegde. He would become a very senior cabinet minister (and maybe even Prime Minister if he were a little tougher) in a national government formed by opposition parties.

Karnataka's reforms, which go further than any other state, apart possibly from Communist-run West Bengal, affect its 30m rural population (urban centres already had elected councils). They involve 20 rural district councils, called *zilla parishads*, each covering an average of 1.5m people, and 2,500 *mandal panchayats*, each covering about 10,000 to 15,000 people in groups of 8 to 12 villages.

About half of Karnataka's annual State budgets for development and current expenditure, totalling some Rs19bn, are being handed over to the district councils, which then pass about 60 per cent of what they receive down to the village *mandals*.

The district councils have presidents with the status of a Karnataka minister of state, and nine committees with powers over subjects such as planning, finance, food, health, education, and justice. The village *mandals* cover subjects such as local roads, agricultural production, drinking water and irrigation.

There are teething administrative problems, a shortage of funds, and resistance to the councils' right to raise local taxes. There are also inter-village rivalries, sometimes exacerbated by caste loyalties, as well as tensions between the newly elected representatives and local civil servants whose right to rule, dating from pre-British Moghul days, has at last been curbed.

John Elliott

Madras' fruit market area

Madras

Old staging post

EVIDENCE OF the important role that Madras played in the development of British interests in India can be traced from the palm-lined beach front through to the city's bustling centre.

Today statues of British monarchs and governors bake under the tropical sun, Fort St George stands as a monument to eighteenth century imperialism and faded names on shop hoardings are reminders of departed expatriate merchants.

The shops and businesses once owned by the Parrys, the Binnys, the Higgenbothams and the Arbuthnots are landmarks and the manufacturing and some of the companies they established still operate under their names.

Leyland, Best and Crompton were among the major British automotive and engineering groups to chose Madras as their Indian headquarters. The Rover group has recently negotiated the sale of its remaining 30 per cent holding in Ashok Leyland, India's second largest bus and truck manufacturer, to the Hinduja family and Fiat Iveco while the last British interests in both Best and Crompton were sold in 1978 when the two groups merged.

Madras was the staging post for British expansion into India, the first stop before moves north to Calcutta - which replaced Madras as the centre of British commerce in the subcontinent - and into the interior.

The East India Company established a beachhead in what is today Madras at the beginning of the eighteenth century through the negotiation of agreements with leaders of the sparsely populated area.

Robert Clive arrived at the company's Fort St George in May 1744 as a 19-year-old and was employed as a writer. Five years later he staged the first of his many imperial victories in the subcontinent, which led to him being called Clive of India when he fought and recaptured the fort from the French.

Fort St George remains a well preserved, outstanding example of colonial architecture and the main building is the gleaming white home to the Government of the state of Tamil Nadu.

With a rapidly expanding population of 3.5m Madras is India's fourth largest city. The city has spread inland from its 20 mile long beach front on the Bay of Bengal and covers an area of about 67 square miles.

The city's inhabitants flock to the promenade along Marina Beach during balmy evenings to escape the fierce heat that is relieved only during the three month monsoon season.

Palm trees dominate the skyline of the surrounding residential districts and are winning the aerial war with high rise development in the city centre. Madras' tallest building is only 13 stories and, according to city officials, it is the intention to keep high rise development to a minimum so as to preserve the tropical atmosphere that the palm and the bougainvillia trees lend.

To avoid the cramped development of other Indian cities the state government has imposed a rule that the floor space of a multi-story building cannot be more than 2.5 times the area of the building site.

Another example of civic concern unique to Madras is the creation of a "no horn" area along Mount Road which dissects the city's commercial centre. This rule gives office workers and residents a welcome break from the incessant horning blowing of taxi and auto rickshaw drivers.

The importance of the film industry to the city is obvious at all turns (see next page). Massive garish billboards advertising the latest releases line roads throughout the city and 16 cinemas crowd into one end of Mount Road.

Displayed on almost the same proportion are portraits of Mr M G Ramachandran, the Chief Minister of Tamil Nadu and erstwhile southern Indian screen hero.

The ailing MGR is rarely seen publicly, partly due to the fact that he has recently made several extended overseas trips to seek medical attention. Portraits of him wearing sun glasses and a white fur hat dot the city and are held aloft during the regular political rallies organised by his AIADMK party.

The idiosyncratic MGR has held power for 10 years, running on a populist programme encouraging regionalism through a centralised administration. His administration has staunchly opposed all moves by Delhi to reopen the debate on the imposition of Hindi.

Signs written in Hindi are painted over throughout the city, leaving the regional Tamil and English translation. It is a curious fact that a resident of Madras meeting a Hindi speaker from the north will invariably converse in English.

Two years ago MGR took the unexpected step of outlawing horse racing in the state and a statue of a rearing stallion has been erected to mark the event.

The reason for the action is officially that the chief minister felt people were wasting their money on gambling. However, it is widely rumoured that it was to nobble a leading horse racing figure who is also a political opponent.

Tamil refugees from neighbouring Sri Lanka and landless peasants from the interior of Tamil Nadu are flooding into Madras, creating shanty towns on vacant blocks of land. Opponents of MGR claim he is encouraging this migration as a means of boosting his urban support.

According to a leading Madras industrialist, MGR plays a hands off role with business. "We don't go to him, he doesn't come to us," he says.

Madras's severe power and water shortages have been deepened by the drought, causing a critic of the chief minister to observe that it will take more than his acting skills to deal with the troubles which may lie ahead.

Ray Bashford

Films are made on a low budget, high output basis

Madras' film industry

Diet of sugary escapism

THE FINAL dance sequences are being shot on a Madras film lot of Handcuffs of the Law, one of the 580 films which the South India film industry will turn out this year.

The hero, sporting an American baseball sweatshirt and a John Travolta haircut, beguiles the sari-clad heroine with his flute and lures her away from the clutches of the rich villain.

Once again good triumphs over evil and the virtues of compassion and love are driven home to the tens of millions of filmgoers in the southern states of Tamil Nadu, Karnataka, Kerala and Andhra Pradesh.

It is sugar-coated love scenes such as these that inspire Dr S Krishnaswamy, an acclaimed Madras-based documentary maker, to comment: "The Madras film industry makes films not clean enough to be shown to children and not mature or bold enough to to be shown to adults."

However, these simple romantic tales are the stuff that the industry flourishes on while pandering to the escapist dreams of the impoverished rural masses.

The Indian cinema industry has a grip on public entertainment in a country where television and videos are, for the vast majority of people, an unattainable luxury. For Rs5 (25p) people can fantasise for two hours about the lives and loves of the rich and respected.

But, however pervasive cinema may be in India, it has a particular power in these southern states. About two-thirds of the 900 films which will be made this year by the world's most prolific national film industry will come from Madras, the home of the state's major film production groups.

Bombay is the production site for at least 250 films a year, mainly in the official language, Hindi, while Calcutta has a relatively small output principally of Bengali movies.

The Madras production figure is even more remarkable given that only about a quarter of India's population speaks Tamil, Telegul, Kanada and Malayalam - the regional languages of the four states in which the films are made. And, as a measure of the cinema's image-making power, the two populist chief ministers of Tamil Nadu and Andhra Pradesh, Mr MG Ramachandran and Mr NT Rama Rao are former screen heroes.

The industry in southern India employs 600 full-time directors, 1,000 producers, and 200 script writers, as well as thousands of actors, and about 50 screen idols whose dashing off-set lives feed the gossip columns of newspapers and magazines.

The films are made on a low budget, high output basis. A large-scale production in Tamil or Telegul - the languages spoken in the two most populous states, Tamil Nadu and Andhra Pradesh - would run to Rs8m and would take at the most three months to make. Of this, the hero and heroine would share a Rs3.5m fee, although because of tax evasion it is impossible to get an accurate figure.

Mr Suresh Reddy, the managing director of Vijaya Productions, Asia's largest film production company, says that at least 60 per cent of the finance for the Madras film industry is black money. The cinema has long been a laundry for entrepreneurs with an eye for a box office winner and a desire to avoid tax.

Tax evasion runs right through the industry, from actors to the village cinema, Mr Reddy says. Senior directors and actors often work on up to three films at a time. This explains why Mr Kodi Rama Krishna, a 31-year-old director, has made 35 movies in the past four years, the majority of which were about what he calls "family crises".

"I make movies to entertain people and I make them within a budget. I do not chant slogans in my films," says Mr Rama Krishna while taking a break during the making of his latest film, Relatives.

Dr Krishnaswamy says that commercialism has strangled the creativity which existed in the southern Indian film industry in the decade before independence. "Film makers in Madras don't know how to tackle the issues they undertake," he says. "A film may commence on the subject of union power or high level corruption but will always end up as a love story because that's what sells."

Mr Reddy defends the content on commercial grounds. "We give the people what they want and that is to get away from the facts of their lives and share fantasies with their favourite actors for a cheap price," he says.

Mr Reddy believes there is not a big enough market for what he calls "off-beat" movies, although he admits that in Kerala, the communist state which has among the highest literacy rates in India, "you can't just dump anything."

In this country, where a strict moral code thrives, rigorous central government censorship laws virtually prohibit the production of movies mentioning pre-marital sex, homosexuality or extra marital affairs. Heroes and heroines can dance and swoon suggestively but must never even kiss.

The recent appearance on video of soft-core porn European films has caused an uproar and forced the film industry to defend the existing rules.

Apart from encouraging the entry of such movies into the country, videos have also led to video piracy. According to Mr Reddy increasing numbers of people are hiring video players, making pirate tapes and running private screening for personal profit.

He says the solution to the problem is to make more lavish productions which are better viewed on a wide screen and take longer to appear on video.

The industry may complain about video piracy but it will be little more than an annoyance as long as the film heroes hold Maharaja status and people are willing to spend their last rupee to see them on the big screen.

Ray Bashford

4: Business communities

Castes and major families in commerce and industry

Competitive modern caste

A NEW caste of rich businessmen has been added in the past few years to India's complex web of hierarchical, regional and religious relationships which set much of the style and govern many of the intrigues and undercurrents of the country's commerce and industry.

They are the Non-Resident Indians, rich people of Indian stock living abroad who are being enticed to bring their new wealth and high technological expertise back to invest in their home country.

Suddenly, families like the Hindujas from Europe and the Chhabrias from Dubai have burst on the corporate scene, challenging established families such as the Birlas, Goenkas, and Modis from India's leading Marwari caste of traders and industrialists to see who will come out on top of the country's investment and technological boom. Some others have come back to India with technological expertise, notably Mr Sam Pitroda from the US, who is developing India's C-Dot telecommunications systems.

The NRIs, as they are known, look like being no more popular with the rest of India's business community than the Marwaris who, with only a few exceptions, are generally condemned by industrialists from other castes and regional backgrounds for what is said to be their unscrupulous, selfish approach to work and life.

Though the NRIs have not yet been dubbed a caste, the idea has some appeal to experts. "A caste of NRIs? Yes, maybe. They eat together, maybe marry together, and certainly demand special rights and privileges from the Government for themselves as a group. Yes, you could say they are a modern caste, with their blood flowing separately," is the judgment of one seasoned Calcutta businessman.

India's pervasive Hindu caste system often dictates with whom one can eat, be friends, and look to for marriage partners. A mixture of the taboos of apartheid and the snobbery of the British class system, it has its roots back in ancient jobs and occupations - with Hindu priests at the top and "untouchable" sweepers at the bottom. It can imprison a person and his offspring for generations. For the poor, there is rarely escape.

In commerce and industry caste can influence, but need not generally inhibit, one's choice of business partners, though certain castes like the Marwaris stick together. Along with regional and sometimes religious backgrounds, caste instantly labels a businessman as a certain type of person.

So, to generalise, members of the small Parsi religion, like the Tatas, who run one of India's two largest industrial empires, are clean and efficient. Businessmen from the State of Punjab, like the Nandas of Escorts, are tough, stubborn fighters who do not give in. The proud Sikhs, also from Punjab, are persistent, artful and often more self-interested than many other groups.

People from the far western state of Gujarat have supplied African countries such as Kenya with its traders, and many UK streets with shopkeepers. They are usually small traders, but they sometimes develop into big industrial empire builders like the Mafatlal family, or the Ambanis of Reliance Industries, India's fastest growing company.

The Chettiars, who originate from Chettinad in southern India, include the Arunachalams of Madras. The Arunachalams run Tube Investments and other companies and trace their family back more than 400 years. With a reputation for extreme business caution, they were bankers and traders to the invaders and the rich in Southern India, Ceylon (now Sri Lanka) and further afield in South-East Asia.

But of them all, it is the Marwaris who are the most successful and controversial. They came three or four centuries ago from the western desert state of Rajasthan and worked their way up as bankers and brokers to India's rulers - both the Moguls and the British - and gradually moved eastwards across India to establish themselves in Calcutta.

Some have emerged from their trading past, like the Birlas, the country's biggest industrial house, the Goenkas of Calcutta and Bombay, and the Singhanias and Modis of New Delhi. In Pune near Bombay there is the Bajaj family which includes Mr Rahul Bajaj, one of the country's most respected younger modern industrial managers who was recently beaten by the Hinduja family in his bid to buy Ashok Leyland from the Rover group.

But apart from one or two such notable exceptions, Marwaris are often harshly criticised in private: "A Marwari is taught from childhood that his first duty and responsibility is to protect his family from impoverishment, then his next duty is to the Marwari community, and only then to his country if there is anything left for that," says a senior businessman. "So when a Marwari evades tax, he is doing the right thing for his family. A Marwari believes anything can be bought."

It is the supremacy of this rich minority group which is now being challenged by the NRIs, whose mixture of wealth and technological expertise, plus investment and tax privileges, gives them massive potential.

Broadly, an NRI is someone whose parents or grandparents are of Indian origin and who lives outside India for more than half the year. He is allowed to take a 74 per cent equity stake in an Indian company, compared with a basic foreign limit of 40 per cent, and can have 100 per cent if profits are kept in India.

Foreign plant and equipment can be imported without any restrictions, including second-hand machinery, which is difficult for resident Indians and foreign companies. Other concessions include a seven-year wealth tax holiday and a freedom, not enjoyed by resident Indians, to mobilise funds abroad.

The NRIs are drawn back to India by a genuine wish to return to their home - and often to find marriage partners for their children - as well as by the privileges and the enormous potential for laundering and making black money. "Once you are an NRI, no-one can ask where your money comes from," says one civil servant.

One of the first high profile NRIs to come back was Mr Swraj Paul, who runs the Caparo Group in the UK and failed to buy control of two Delhi-based companies, Escorts and DCM. He was a close confidant of the late Mrs Indira Gandhi and has now withdrawn from most of his interests in India, although with his brother's company, Apeejay of Calcutta, he is involved in a Delhi hotel and a large new fertiliser plant.

His slot has now been filled by the much larger and more powerful Hindujas. This is a controversial and extremely rich international trading family, which stayed in the shadows for some years, but has now made a high profile entry into Indian manufacturing industry by buying a controlling interest in Ashok Leyland.

Other big names include Mr Manu Chhabria, based in Dubai, who has amazed Indian businessmen with his supply of funds and has bought interests in British companies including Dunlop and Shaw Wallace. A new name, Mr PK Jani of London, who has extensive interests in Kenya, has appeared as a major backer of the Birla family's recent move into Chloride India, of which he is now a director.

John Elliott

Top 12 private sector companies

	Assets Rs bn		Profits before tax Rs bn	Turnover Rs bn
	1985	1980	1985	1985
Birla	41.11	14.31	1.54	42.30
Tata	36.98	15.38	2.51	41.30
*Goenka	—	—	—	—
Thapar	10.67	3.48	0.22	9.12
JK Singhania	10.57	4.12	0.19	10.81
Reliance	10.56	1.66	0.71	7.77
Mafatlal	9.64	4.27	0.45	11.90
Modi	8.18	1.98	0.19	11.13
Assoc Cement (ACC)	7.42	2.74	0.01	7.92
Larsen & Toubro	7.14	2.16	0.40	4.77
Bangur	6.50	2.64	0.08	7.04
Bajaj	6.19	1.79	0.41	6.11

In the official statistics M. A. Chidambaram of South India is in 8th place with 1985 assets of Rs7.73bn, up from Rs4.3bn in 1980. But this reflects some common directorships between Chidambaram and Southern Petrochemical Industrial Corporation which do not form a combined industrial house. *The Goenka family's businesses are not included in detail because they do not appear in the Government statistics but have assets and turnover each in excess of Rs12bn, making them the third biggest family grouping in India.

Source: Delhi.

John Elliott profiles the king of industry

Ethics with efficiency

Mr JRD Tata

AT THE age of 83, Mr Jehangir Ratanji Dadabhoy Tata - or JRD as he is generally known - is the undisputed king of Indian industry. Chairman for almost 50 years of Tata Sons at the hub of the wide-ranging Tata family of companies, he is still alert and acerbic, ambitous for the success of the the businesses he has helped foster, and concerned about their contribution to national development.

There is continual competition between Tata and the looser-knit Birla family of companies to be the largest business house in India. Birla is now marginally ahead according to Government statistics, but Tata faces no contest for the top position in terms of business ethics and managerial efficiency, despite occasional allegations of minor corruption, and relatively low profitability and slow growth.

"To the best of my knowledge we have never paid a bribe to anyone - because of this we have not prospered. We could have been two or three times as big as we are today if we had paid up", says Mr Tata.

The Tatas, and some other top board members, belong to the Parsi religion, a small tightly-knit Zoroastrian community, which originates from Persia. Because of its small size, and a tradition of inter-marriage, it has dwindled in its importance among Indian business communities. But it has a strong reputation for business ethics and efficiency.

He links the growth of corruption to India's plethora of industrial and other bureacratic controls: "When I was young what was there to bribe for? A friend might spend 50 rupees to get a wagon onto a train, but nothing else. It's the licence and permit Raj which has politicised and corrupted India's economic system, together, till recently, with prohibitive taxation. It's when people needed to get a permit or licence right from the top that the temptation to corrupt and give bribes grew."

He admits that Tata has sometimes paid towards Congress Party funds in order to get things done. "But when we had to do it we insisted on doing it openly. We'd send cheques."

The problem stems primarily from Mr Jawaharlal Nehru, India's first prime minister who, Mr Tata regrets, had the main influence on post-independence economic policy rather than an older Congress politician, Mr Vallabhairdar Patel:

"Nehru had a complete blockage on economic matters. He was thrilled by the Russian Revolution and believed in his British-Socialist way that he could introduce a system with democracy and private enterprise too. But he made the state dominate and wanted it, like the British Labour Party's dreams, to control the commanding heights of the economy".

Senior executives estimate that the 32 main companies promoted by Tata employ 250,000 people and have a turnover of Rs48bn (£2.28bn) a year. This is only eight times bigger in real terms than when Mr Tata took over in 1938. Pre tax profits last year were only Rs2.68bn.

"We do try to go into projects with some element of whether it is good for the country, where there is something to contribute," says Mr Tata.

Even the money-spinning elegent Taj Mahal Hotel in Bombay is seen as fitting this philosophy. It was was built 90 years ago by Mr Jamsetji Tata, founder of the group, to be a world-class Indian-owned hotel, standing geographically between Shepherds in Cairo and Raffles in Singapore, and catering for both Indians and foreigners at a time when Indians were banned from top Bombay social clubs.

Assets of the main 32 companies are estimated at Rs34bn, but they are expected maybe to double in the next five year with new projects involving the group's largest companies.

These include a Tata Chemicals Rs11bn refinery at Karnal, Rs10bn investments by Tata Iron and Steel (Tisco), Rs8bn by Tata Fertilisers, and a Tatamobile pick up truck-cum-car project by Tata Engineering and Locomotive (Telco) which has failed to obtain Government approval for a Japanese car tie-up with Honda.

There are also diversifications into telecommunications, computers, electronics including watches, oil drilling, and a so far unsuccessful attempt to persuade the government to allow Pepsi Cola into India.

At the centre of all this activity sits Mr Tata in his role as chairman of Tata Sons. The authority he wields is indirect because, as often happens in India, Tata interests only own small stakes in some of the companies (4 per cent in Tisco and 14 per cent in Telco for example). And Mr Tata is surrounded by powerful barons heading the major companies who are jealous of their authority. Apart from Tata Sons he has retained the chairmanhip only of the Taj Hotels company - "because it amuses me," he explains, half apologetically.

"Tata Sons is the founder but the other companies have independent, well-established, authority. Its role is as a holding company for the charitable trusts. The board is made up of the heads of the big companies in the group. So because we all sit there, there is mutual understanding and cohesiveness."

National politics and trends are discussed rather than investments and projects which are handled by a weekly advisory committee meeting. The influence on the companies is informal. "I could stop something happening only by convincing the person their plan was wrong," he says.

Many Indian business houses are splitting up as families grow, and younger generations take over. Tata is professionally managed, right up to the big company barons like Mr Russi Mody who heads Tisco and Mr Darbari Seth at Tata Chemicals and Tata Fertilisers. Such men may want to strike out more independently when Mr Tata retires, so the question of when he will go and who will succeed him are important for central cohesion and infuence.

"My colleagues like to make me believe I have a use and should not give up," said Mr Tata who has hinted in the past that he favours Mr Ratan Tata, a 49-year old cousin and one of a very small number of Tata family members in the group. Mr Ratan Tata is in charge of Tata Industries, a company which is taking the group into new technologies.

Birla family

Development pace mourned

Mr BK Birla and his son Aditya

IF THERE IS a single senior industrial figure at the top of the Marwari business caste, it must be Mr BK Birla, a shy, quietly spoken 66-year old, who heads the largest section of the Birla family empire, itself the biggest industrial house in India.

His father was Mr GD Birla who died in 1983, a member of Mr JRD Tata's generation, and a confidante of Mahatma Gandhi, leader of India's freedom struggle. Mr GD (the family are almost all known by their initials) laid the foundations of the modern Birla industrial empire, of which family members personally control assets and turnover both well over Rs40bn (over £2bn) in virtually all major industries.

In the past it has been customary in India to characterise the country's two largest industrial houses by saying that while both were successful, Tata was extremely ethical and believed in investing in new technology and a western management style. But Birla was rougher, with investment cut to the bone and old machinery worked till it broke down.

Time of course is blurring some of the distinctions, and a new generation of more cultured, sophisticated Marwaris is gaining international management education at Harvard, MIT, and Geneva.

But Mr BK recognises the arguments: "In the past in India, bad management and poor machinery let you make money - now you need good management and new technology. Also in the past, Marwari families were only interested in making money, now it's investment and prestige first, and the money will follow later."

"My father, GD, used to say: 'Children, speculation is like gambling. Speculation and industry you cannot combine. In speculation you want a return in a few hours, but industry needs long term planning'.

"In the past many Marwaris used to ignore that and try to combine their trading and speculation with industry, and try to get quick returns. The Marwaris have always had money - now they have technical ability and education."

Those remarks reflect the views of a man who regrets India's slow development - even though his family and Marwari clan have done well out of the country's inefficiencies, inadequacies, and cartel-inducing industrial controls.

"Look at Korea, Hong Kong or Japan. Compared with them we have not done well. We are only comparable with Bangladesh or Pakistan. There was a narrow vision until the past two or three years since when things have begun to change.

"Imagine. My Century Enka nylon plant, set up in the early 1970s, was only allowed to produce three tonnes a day. It took four years to get any expansion. By 1980 we were up to 17 tonnes a day and now its about 100."

The Birla businesses are run by five members of Mr BK's generation and four or five younger Birlas in their 30s and 40s. During the past year a series of complex cross investments, which linked all branches of the family's holdings through finance and industrial companies, has started to be split up into six main individual groups, the biggest of which is run by Mr BK and his son Aditya.

The aim is to sort out who owns which companies, so as to avoid the sort of friction which often hits successive generations of industrial families in expanding economies. Some of India's restrictive monopoly laws might also be avoided by cutting the cross holdings.

JE

One of New Delhi's leading industrialists

Successful rebuilt life

Mr Hari Nanda

IN THE summer of 1947 a Lahore-based family bus and truck company run by Mr Hari Nanda, now one of New Delhi's leading industrialists, carried 30,000 to 40,000 people across the borders of the newly-partitioned countries of Pakistan and India.

But Mr Nanda, a natural optimist, did not himself immediately move with other Hindus away from Lahore and what is now Muslim Pakistan. He believed the riots and bloodshed would eventually evaporate, in line with the turbulent traditions of the Indian subcontinent. "I used to say I'd make the same money again when the people all moved back to their homes".

That was a rare misjudgement for the man who in 40 years has built Escorts, India's fifth largest engineering-based manufacturing business with an annual turnover of over Rs4bn (£190m), making himself one of the biggest success stories of people who had to rebuild their lives after partition in a new country.

Mr Nanda's other claim to fame is that, with the stubborn pride of a Punjabi, he personally fought off between 1982 and 1986 a take-over bid for control of Escorts from one of the most famous non resident Indians - Mr Swraj Paul, a London-based Indian-born businessman who was close to the late Mrs Indira Gandhi.

"The Swraj Paul thing was four years fighting for our survival with no growth in the company - we missed out on developing new projects," says Mr Nanda, 70 next January, referring to what became India's most controversial and political corporate takeover battle.

In the 1940s the Nandas of Lahore ran 600 buses and trucks, with services stretching westwards to Kabul in Afghanistan, east to Delhi, and north to Kashmir. In 1944 they took a franchise from Westinghouse of the US to sell domestic appliances, coining the name Escorts to describe their job.

tractors, first from the US and then from Ferguson of the UK. In the late 1960s he went public and started manufacturing Polish Ursis and then Ford models. "I decided that was the area to go into because India could not prosper unless agriculture mechanised - bullock-drawn implements can't go deeper than three inches into the soil, and that is not enough, so you need tractors".

Now with 20 per cent market share, he is the largest of India's tractor manufacturers, producing 15,800 units last year compared with 14,850 by Hindustan Machine Tools and 14,400 by Mahindra and Mahindra.

Escorts also leads on motor cycles with nearly 40 per cent of the market. It started by using Polish technology for a model called Rajdoot of which 75,000 were sold in 175cc and 350cc forms last year. A 100cc Yamaha with Japanese collaboration was also launched then with a target total annual production of 150,000 bikes a year.

Other products include a range of engineering components and industrial equipment based on foreign partnerships such as JCB diggers from the UK.

Now, having fought off the Swraj Paul takeover bid and increased his family control of the company, the aim of Mr Nanda and his sons Rajan, 46, and Anil, 36, is to double Escorts' turnover in four years from Rs3.85bn last year, by cashing in on Mr Rajiv Gandhi's industrial liberalisation policies. A turnover of Rs4.5bn is forecast this year.

In July a Rs350m convertible debenture issue was 25 per cent over-subscribed, despite a sluggish stock market and disappointing Escort results last year when average Rs155m annual profits in 1980-85 fell to Rs87m.

The drop in profits was partly caused by losses on a floating dock, now sold, and by further losses on Yamaha motor cycles. The cost of imported Yamaha components has soared as the

Almost all the vehicles and Westinghouse products were left behind when Mr Nanda, whose wife and son were already in India, eventually decided to leave seven weeks after partition because as Hindus he "realised the Pakistani police and army were against us". There was no compensation for what he left behind, although he was much better off than most of the 13m people who struggled across the borders between the two countries with virtually nothing.

He arrived in Delhi with two cars, a Chevrolet and a Buick which he sold, his clothing, and Rs5,000 in cash. "I thought I'd have had it if I went to a refugee camp, so I took a suite for Rs120 a day in the Imperial, then the best hotel in Delhi, to make sure people would speak to me."

He had several high level political friends in the ruling Congress from the days of hiring vehicles for electioneering in Lahore, and lent Rs500,000 of promissory notes for their unpaid hire charges. One friend lent him a house in Delhi's exclusive Aurangzeb Road. Others later proved to be valuable contacts, helping him for example to land a contract which relaunched his business career - a $12m Westinghouse order for a Punjab hydro electric project.

Next he moved into importing

value of the yen has risen. This is a problem which has hit many Indian companies with Japanese commercial vehicle and two-wheeler tie-ups and has caused companies such as Escorts to speed up local component manufacture.

Investments of Rs1.7bn are planned for the next five years, using rich cash reserves which have risen to Rs1bn for new ventures and for modernising outdated plant, especially at the main Faridabad engineering factories outside Delhi.

The plans include Escorts' first takeovers of existing businesses, and a rapid enlargement of a series of foreign collaborations which have spearheaded growth in the past, usually with the foreign partners taking 26 to 40 per cent equity stakes in joint ventures.

New partners and products include Claas combine harvesters, Faun mobile cranes and Scherdel springs, all from West Germany, Dynapac road construction equipment from Sweden, and Jeumont Schneider business telephone exchanges from France. Food packaging technology, a leasing company, and medical electronic equipment are also on the list.

And with the sustained supreme Punjabi self-confidence that saw him out of Pakistan and into Delhi's Imperial Hotel 40 years ago last month, Mr Nanda is now pushing his most ambitious project. He is trying to persuade the Indian Government to forget its abhorrence of old technology and allow him to produce France's old Citroen 2CV cars for the domestic and export markets, now that the car is no longer being made in France but still appropriate technology for India.

"If India doesn't let me take it, Citroen will go to China, and China will earn the exports which we could be doing," says Mr Nanda with characteristic bluntness.

John Elliott

Sam Pitroda and the Centre for the Development of Telematics

Vision of an iconoclast

VISITORS remove their shoes out of respect when they enter India's many temples. They do so for the practical reason of cleanliness when they enter the pristine computer rooms of Mr Satyen "Sam" Pitroda's Centre for the Development of Telematics (CDoT). By the time they leave, the energy and enthusiasm of CDoT's young electronics engineers have won their respect as well.

Headquartered incongruously in a former hotel in the centre of New Delhi, and sponsored by both the Indian Departments of Telecommunications and Electronics, CDoT is a unique experiment, an extraordinary initiative. It is turning India's traditional approaches to project management upside down and has already shaken foreign telecommunications giants with its presumption and the level of success it has achieved.

Although many people have played a part in the establishment of CDoT - Mrs Indira Gandhi and Mr Rajiv Gandhi were early supporters and Mr DV Gupta, now chairman of Computer Maintenance Company, claims credit for sponsoring the project while Secretary for Electronics - it is essentially the realisation of the vision of one man, Sam Pitroda.

He is now without doubt the best known non-resident Indian technologist, although 'non resident Indian' no longer applies since he has retaken Indian citizenship and established his home in the country. He is firmly favoured by Mr Ghandi and has just been appointed chief adviser on his technology mission programme. Such rapid advancement and the power it bestows does not always go down well in India, and over the past few weeks his progress has excited as much jealousy and irritation as admiration. But Mr Pitroda's achievements are so far beyond reproach.

His goal in 1984 was breathtakingly audacious. He claimed he could develop, using Indian designs and Indian skills, a complete suite of digital electronic switching systems - essentially the computers which control modern telephone exchanges - for India's appalling telephone network within 36 months and for less than Rs360m (about $36m).

Digital switching systems are notoriously difficult to design and build. Some of the world's brightest telecommunications firms have found themselves taking far longer than expected and spending far more than budgeted on systems which then failed to meet their design objectives. What hope of success was there for an indigenously-designed Indian switch?

Those arguments, however, took no account of Sam Pitroda's unusual personal qualities. Three years ago, it was easier to dismiss him as a silver-tongued charlatan or a hopelessly deluded dreamer. Now with two of his three planned switches - a robust exchange for rural areas (RAX) and a private exchange for small businesses (PABX) - up and running, and his main exchange, the 16,000 line MAX, ready in skeleton form, doubters and critics are preparing to eat humble pie.

Pitroda, it goes without saying, is an extraordinary man. Born one of eight children to Gujerati parents in the backward state of Orissa, he read physics at the University of Baroda in western India before emigrating to the US in 1964.

There he completed his electronics education at the Illinois Institute, became an American citizen and worked for the GTE Corporation in Chicago where he developed novel switching systems. That work laid the basis for Pitroda's 50-odd patents in

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Sam Pitroda: CDoT is turning India's traditional approaches to projet management upside down

Development of Telematics

Continued from p10

switching technology.

He secured his personal fortune through the formation, with two colleagues, of a telecommunications company, Wescom Switching, which reached a turnover of $100m in 1980. They sold the company to Rockwell International that year, with Pitroda staying for three years as a Rockwell vice-president as part of the deal.

It was around this time that, with typical restlessness, he began to ponder the problems of telecommunications in developing countries. A United Nations funded programme gave him the opportunity to test some of his theories in Brazil. He was part of a US delegation which reviewed the Chinese telecommunications industry.

At about this time, India was beginning to take seriously the deficiencies in its telephone system. A committee under Mr HC Sarin had been established to revamp Indian telephone services. Pitroda wrote to Sarin, setting out his arguments for rejecting western telecommunications technology in favour of a home-grown product: "My idea was that India could not afford to have too many technologies in this vital area," he says. "It had been putting a patch on top of a patch on top of a patch. It was time for India to do its own thing."

Persuading politicians and government officials was an uphill struggle and Pitroda estimates he spent $250,000 of his own money in trips between Chicago and New Delhi before final approvals were given in 1984.

His official position with CDoT is "adviser" for which he is paid one rupee (about 5p) a year. While he still owns a house and several companies in the US, he has become an Indian citizen again and established his home in the country of his birth.

He presents convincing arguments why CDoT will achieve its objectives.

First, he rejects totally arguments that a new, underfunded indigenous Indian company is unlikely to succeed where the world's top telecommunications organisations have failed.

Existing switches, he says, like the UK's System X, are designed and implemented essentially in yesterday's technology while CDoT has the advantage of starting with the latest, very powerful semiconductor technology.

Indian software expertise, furthermore, is equal to the best in the world and at very competitive prices. A $36m project in India, he points out, is equivalent to a $400m project in the US.

Second, he claims he is masterminding a management revolution in India. He has swept away the bureaucratic, hierarchical style of management traditional in India and instituted an informal, irreverent version with which many of his 200-odd staff in New Delhi and Bangalore found difficult to cope.

Although he employs only young graduates whose minds, he hopes, have not been corrupted by traditional practices - their average age is 23 - he still found it necessary to bring in a psychologist to help with the problems of adjustment to his new, iconoclastic regime.

Now he and CDoT inspire fierce loyalty in its staff. Ms Jyothirmai Visweswariah, a software engineer who carries her violin with her on journeys to install the new CDoT exchanges, says there is no other company for which she would want to work: "I want to work in India and for India," she says. "CDoT is unlike any other Indian company".

Mr Pitroda's technological credentials are sound and his business case is impeccable. But it is the degree of planning and attention to detail that he brings to bear on problems that should ensure CDoT's success. His own diary is planned years ahead and he insists his staff do likewise. Every employee has a copy of the CDoT master plan which sets out in the most minute detail what is to be achieved, how it is to be achieved, and when it is to be achieved.

Rival telecommunications companies grudgingly admit his RAX and PABX exchanges are well designed and effective but question whether his 16,000 line MAX will be up to the job. Mr Pitroda dismisses such criticisms with characteristic impatience: "It will succeed" he snaps.

He is equally abrupt with critics who ask whether he has begun to spread his talents too thinly: "You can fault me by saying I do too many things, but I am not going to change. This is not an exercise in electronics design but an experiment in administrative reform. I will know how successful I have been in 1995."

Alan Cane

5: Science and technology

Alan Cane on successes and problems

Fruits remain unplucked

WHEN INDIA gained independence, its manufacturing capabilities were at such a low ebb that even nails and screws had to be imported from Britain.

Yet in four decades it has become self-sufficient in virtually every basic manufactured item, and its scientific and technological achievements in areas including nuclear power and space are on a par with the best in the world.

By any standard, India's scientific, technological and industrial renaissance has been remarkable. It now boasts the third largest pool of trained scientific manpower in the world and exports 10,000 scientists, engineers and doctors to the US, UK and Europe.

The logic which underlies its plans for future developments in, say, electronics or alternative energy is powerful and well-tuned to the needs of a country where great wealth and great poverty exist side by side.

Yet mid-way through its Seventh Five-Year Plan, it is clear that success in matching its scientific capabilities to its industrial performance has been erratic and politicians, industrialists and politicians alike are asking themselves if the country could have done better.

Dr PJ Lavakare, an adviser to the Indian Government on science and technology issues, summed up the mood when he noted: "By and large, there is an increasing feeling that the demands of the common man, which could be satisfied through the application of science and technology, have not been forthcoming."

So while Indian rockets take soundings of the upper atmosphere, and Indian oceanographers prepared to raid the seabed for precious minerals, its technology-based consumer goods are expensive, outdated and uncompetitive. Its technology-based exports are minimal. Mr PS Deodhar, newly-appointed chairman of the Government's Electronics Commission and a former successful industrialist says bitterly: "There is not a single Indian product that I can brag about."

The number of scientific journals published in India rose from 708 in 1977-78 to 2,000 in 1984-85, yet the number of patents awarded to Indian technologists remained constant at just over 3,000 a year.

Those like Dr Lavakare who have analysed the Indian paradox of high scientific competence coupled with a failure to exploit industrially the fruits of research, argue that the management systems necessary for converting research and development into useful products and processes have never been given sufficient emphasis in the planning process.

The roots of the paradox, however, lie in the way science and technology has developed in India. How could such a poor country have moved so far in such a short time but with such indifferent results?

The answer has much to do with three outstanding individuals who shaped India's technological progress: Mr JN Tata, Mr Jawaharlal Nehru, and Dr Homi Bhabha.

Mr JN Tata was founder of the commercial empire that bears his name and which is still India's foremost privately owned industrial complex. Widely travelled, he recognised the industrial benefits other countries had derived from advanced research organisations and was determined that India should benefit similarly.

He died before his ideas could bear fruit, but his sons, Sir Dorab and Sir Ratan Tata, saw to it that the Indian Institute of Science was established in Bangalore in 1911. Since then, the Institute has been the mainspring of Indian science.

Mr Jawaharlal Nehru, India's first prime minister, believed passionately that science and technology was critical to improving the quality of life for India's millions.

He provided the political commitment which ensured that spending on science and technology increased with each successive five-year plan, from Rs200m in 1951-56 to an expected Rs48.13bn by the end of the current plan in 1990.

Mrs Indira Gandhi shared his belief in science as a force for good in its own right. Mr Rajiv Gandhi has taken a more pragmatic approach with the announcement of specific missions to tackle problems of literacy, potable water supplies, immunisation, telecommunications and self-sufficiency in edible oils.

Dr Homi Bhabha was architect of the Indian nuclear programme. In 1944, three years before independence, he was already seeking funds from the Sir Dorab Tata Trust to establish nuclear research in India.

He argued that when nuclear energy became a conventional method of power generation, India should have its own experts on hand and not have to recruit them from abroad.

The demands of the common man have not been satisfied

The importance of his foresight cannot be overemphasized. In 1954, the Tata Institute of Fundamental Research was established; every aspect of Indian advanced technology from space research to biotechnology has its origin in that development.

The Indian nuclear programme was the flagship for its entry into advanced science and technology. It provided the pool of expert manpower needed to keep up with research in other countries, and the success of the first nuclear power stations boosted India's technological self-confidence mightily: "After that, we believed we could do anything," one senior scientist said.

Dr Bhabha initiated cultural as well as organisational changes. He believed in teamwork, in taking risks to achieve success, in making mistakes and learning from them. All of these were alien to the existing Indian scientific culture with its emphasis on, and deference to, the talented individual. And, to a large extent, this attitude has not changed and is at the root of much of the failure to translate scientific discoveries into industrial profits.

As Mr Sam Pitroda, guiding spirit behind the new and controversial Centre for the Development of Telematics, puts it: "Our best scientists unfortunately are Brahmins by caste and by inclination and they do not want to dirty their hands with practical things."

India's top scientists certainly bear comparison with the world's best. It may have only one science Nobel prize winner, the spectroscopist CV Raman, but others like SN Bose, Meghnad Saha, Srinivasa Ramanujan, PC Mahalnobis and Birbal Sahni are equally worthy of note: "If they had worked anywhere but India, they would have been Nobel laureates," says Professor MGK Menon, the Prime Minister's chief scientific adviser.

But there are other reasons why so much potential has resulted in so little real progress in improving the quality of Indian life.

A lack of focus on priorities in government has resulted in efforts to advance on many fronts simultaneously at the expense of areas where India's strengths could be exploited to best advantage. Closed markets stifle competition and initiative in both the public and private sector, and make sensible expenditure on research and development unnecessary.

There is a concentration of high quality research and development in the defence area, the results of which are never fed out to improve the quality of goods and services in the commercial sector.

Most critical of all, and the least easy to cure, is a simple and chronic shortage of funds. This has made it difficult for the country to spend adequate sums on, for example, telecommunications or overseas advertising. There is also bureaucracy on a scale which is damaging to large and small companies alike.

There are signs that these shortcomings are being remedied. Markets in, for example, electronics and computers have been liberalised, with the result that Indian manufacturers have had to think afresh about their research, technology and product quality.

With Rajiv Gandhi's technology missions, there is a new emphasis on planning and concentration. Industrialists and academics alike agree that India's major achievements in science and technology have resulted from detailed planning and determined execution. Major General Shyamal Ghosh, chief executive of International Computers Indian Manufacture (ICIML) points out: "Only when we have planned properly and gone about things in a planned fashion have things happened."

Professor Menon likens the country to a new-born child with all its faculties intact but lacking the co-ordination to use them effectively.

Over 40 years, India has planned itself into a tight technological corner. It remains to be seen if it has the resolve and strength of will to plan its way out again.

Alan Cane reports on the electronics industry

R&D needs boosting

THE predicament facing India's struggling electronics industry is encapsulated in the experience of its largest venture, the government-owned Electronics Corporation of India (ECIL).

It spends only two per cent of its Rs1.5bn turnover on research and development in an area where a US, European or Japanese high technology company would typically be investing 10 per cent or more.

Mr BS Prabhakar, ECIL managing director, explains: "First, we cannot afford more. Second, we have not felt the need." But he acknowledges: "Soon it will come to a stage where we will not be able to survive without substantially greater research and development."

The World Bank, in a recent analysis*, set out the position with brutal clarity: "Process technologies are generally outmoded - eight to 20 years behind. Product technologies are five or six years behind and Indian electronic goods generally have very high production costs and prices."

This wretched state has resulted from government policies implemented - for perfectly good reasons - in the late 1960s and early 1970s that allowed the industry to develop in an environment protected from both international and domestic competition and insulated from technological progress.

In the past decade, however, the Government has acknowledged the stultifying effect of these policies and has introduced a string of liberalising measures designed to open the door to foreign technological expertise, expose the indigenous industry to tougher competition and cut the cost of electronics-based products.

These include encouraging domestic firms to adapt foreign technology, fostering large scale production of components to improve efficiency, cutting import protection to allow easier and cheaper access to components and to electronics grade materials, and allowing a measure of competition for final products.

So ECIL and other Indian electronics companies are facing, for the first time, the heat of competition. It is proving uncomfortable. Mr Prabhakar admits: "It is already giving us considerable problems, but so far we have been able to manage."

The Indian Government now accepts that a healthy electronics industry is crucial to the country's development both in terms of modernising its industry and in improving the quality of life for its people.

Mr PS Deodhar, a successful electronics entrepreneur who was recently appointed chairman of the policy-making Electronics Commission, is already campaigning for greater use of electronics in all aspects of Indian life: "It is not the electronics industry that will create more jobs here. It is the use of electronics."

In a recent lecture he argued: "Our thrust must shift from more manufacturing to more per capita usage. This thrust will create tenfold more employment than manufacturing and will mean improved economic activity and better comforts and education for our citizens."

But he emphasizes that if India is to enter the twenty-first century as a developed nation it will have to compete in electronics in the world market.

The present five year plan, indeed, envisages an ambitious rate of growth for the electronics sector of around 26 per cent a year with a production value of Rs108.6bn in 1990, the last year of the plan, and exports of around Rs10bn.

In 1986, the second year of the plan, production reached only Rs34.6bn, and the belief is widespread that the plan target cannot be achieved. The World Bank, for example, argues: "During the plan's period, the electronic subsector will increase by 21 per cent a year in real terms compared with the plan's projection of 26 per cent a year."

It is not a view shared by the authorities. Mr KPP Nambiar, the newly-appointed secretary of the Department of Electronics (roughly equivalent to a permanent secretary in UK terms) argues that the target can be met: "At the moment I'm confident. My task is to see that all the necessary measures for success are provided by the government."

Dr N Seshagiri, director general of the National Informatics Centre and principal architect of the Government's new liberal policies towards computer hardware and software, is even more emphatic: "I have no doubt whatsoever that the target will be achieved."

The World Bank report says the Government is going in the right direction but needs to go much further if the plan targets are to be met. Economists like Mr Vasant Desai in his new book Indian Industry - Profile and Issues** argues that research and development spending will have to be increased, especially in the areas such as semiconductors. India has only one centre for the production of large scale integrated circuits, the Semiconductor Complex at Chandigarh. Mr Desai writes: "As things stand, it is not certain if the targets outlined will be reached."

Industrialist such as Captain Subbarao Prabhala, chairman of the large public sector company Bharat Electronics, and Major General Shyamal Ghosh, chief executive of the private sector International Computers Indian Manufacture (ICIM), argue strongly that the Government must play to its strengths.

Captain Prabhala says, for example: "We must be quite ruthless in selection and we need not aim for the latest technology. In the consumer area, by way of example, does it really matter in an Indian household if a television set does not have all the latest features?"

Both are concerned that the quality of electronic components available to Indian manufacturers must be improved and their price reduced.

The electronics sector, however, is polarised between the large companies like Bharat and ICIM and small "feeder" companies which depend on the large companies for their survival.

It is in this sector that there is the greatest impatience with the Government. The small companies complain that they are still stifled by red tape and starved of cash by large customers' reluctance to pay their bills.

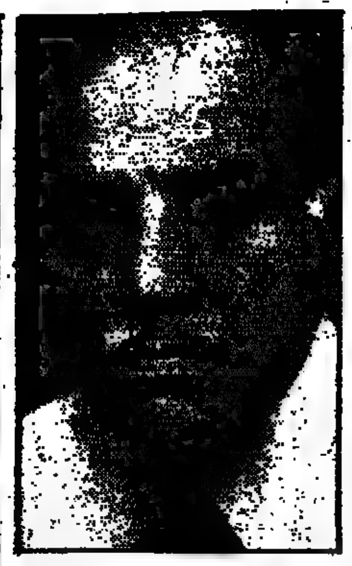
But these accusations are refuted by the authorities who say the red tape has been cut away and that late payment is a thing of the past.

But one young entrepreneur pointed out: "Why can't they emulate the Japanese and give people a free hand. I have to deal with five separate ministries for the simplest administrative matter. There are thousands of small scale companies like mine and a lot are struggling, choked by bureaucracy.

"I know of companies which have to wait for payment for 140 days, 180 days, maybe a year. The Government's figures and targets will not be reached unless there are radical policy changes."

* *India: Development of the Electronics Industry, June 26, 1987.*

** *Indian Industry - Profile and Related Issues. Vasant Desai, Himalaya Publishing House, Rs340.*



Mr Charlie Simon (left): 'You need to find the right person to talk to.' Mr Faquir Kohli: 'Programing is incidental. We are trying to develop systems analysts.'

Software is top quality but there is a lack of specialists

Demands are hard to meet

COMPUTER SOFTWARE has been, for almost a decade now, India's best hope of boosting its electronics sector exports, yet it still stubbornly refuses to fulfil its early promise.

The government believes that India can become a world force in software and backs its judgement with good reasons.

Indians seem to have a natural propensity for the mathematical and logical agility which distinguishes the professional software expert.

The best Indian software from companies like Tata Consultancy and Tata Unisys is recognised as world quality. Tata consultancy, for example, numbers American Express, British American Tobacco and Young and Rubicam among its clients worldwide.

Software generation is a manpower-intensive activity and India has a wealth of trained scientifics. Few Indian software experts earn more than the rupee equivalent of $3,000 a year (about the same as a high ranking army officer), making possible the production of high quality software in India at a very low cost.

But against these advantages must be set a severe shortage of trained computer specialists in the pool of scientific manpower. This suggests that India will have difficulty meeting its own demands for quality software in the next few years. That alone casts doubt on the Department of Electronics's target of Rs3bn from software exports by 1990.

In 1986, India exported software worth Rs420m. Mr. Faqir Kohli, director-in-charge, Tata consultancy points out that a software export of Rs3bn would require the availability of 12,000 to 15,000 systems analysts.

The ability to write software cheaply is becoming less of an advantage as technologies are developed which enable computers to write programs automatically.

There is still too little recognition of the quality and performance of Indian software either in the developed or developing countries.

One development which may help to change this last perception is the establishment of a Texas Instruments software operation in Bangalore, Karnataka state.

It is a wholly-owned TI company, but its products are 100 per cent for export, so it is not in competition with any indigenous Indian software company. It thereby skirts the rule which limit foreign ownership in an Indian-based company to 40 per cent.

Texas Instruments has invested some $5m in the project, a unique venture in India, including $1m spent on a satellite ground station donated, effectively, to the Indian government. TI uses the ground station to communicate with headquarters in Houston, Texas, and Bedford, England.

The company, now some 70 software experts strong, is developing the proprietary software which TI, one of the major US semiconductor companies, will use to design its next generation of silicon chips. It is also carrying out research in artificial intelligence.

Its managing director, Mr Charlie Simon, an experienced TI professional, says his biggest problem in establishing the company was Indian bureaucracy.

"Once you find the right person to talk to, it goes pretty smoothly."

It took 18 months to become operational compared with an estimated six to nine months in the US but Mr Simon says this was due to the company's unique position.

"Most companies here are weighed down by regulations. We did not have enough. The delays were chiefly caused by the government's need to form policies for each new situation."

Late last year, the government, in a major step to revitalise the Indian software industry, cast down the powerful trade barriers which had kept out foreign software. The aim was "flood in, flood out," a slogan anticipating that a high level of software imports would give rise eventually to a greater level of software exports.

It is too early to judge the success of this policy. A trade mission to India mounted by the UK Computing Services Association last year concluded that Indian software houses were technically very expert but lacked the experience to manage large projects. The exceptions were to be found among the large and powerful Tata group of companies.

Mr Kohli of Tata Consultancy argues for quality and integrity, playing down the idea of cheap programing which he sees as irrelevant. "Programing is incidental, routine and will soon be carried out by computers using program generators. We are trying to develop systems analysts," he says.

In a devastating analysis of Indian software ambitions, he points out that skills, credibility and marketing knowhow are essential to successful export sales.

Skills are in short supply, he says, and credibility and marketing ability have to be gained by experience. Public sector purchasing policies should support Indian, he argues.

"Export of any goods becomes possible only after the industry supplying the goods becomes well established within the country and produces goods of excellence and quality."

Alan Cane

Alternative technology

Success of the brown revolution

INDIA BEFORE independence, senior planners say, was like an old, creaking building, cobwebbed, dusty and overlaid with the rubble of centuries.

The job of science and technology, they go on, was to clear away the rubbish and superstition and provide a better life for the people.

India, however, is stubbornly resistant to change, and not only where high technology is concerned.

For some years, the Department of Non-conventional Energy Sources (DNES), a part of the Indian Ministry of Energy, has been sponsoring the development of solar cookers, comparatively simple, foil-lined boxes fitted with mirrors to concentrate the sun's rays.

They are a vast improvement on the smoky fires conventionally used for cooking in village huts. Food prepared in the cookers loses less of its nutritive value and the cook is spared from the danger and unpleasantness of inhaling smoke and fumes.

Old traditions die hard, however. Brahmins - India's highest caste - are reluctant to eat food cooked outside, according to Dr GD Sootha, director of the DNES.

Subsidies are helping to sweeten the pill. The department pays a subsidy of one-third of the cost or Rs150, whichever is less, to every user for the purchase of a solar cooker.

Sensibly enough, the department has its own social research unit to assess the impact of its projects on the behaviour and quality of life of the Indian people. The effect of solar cookers on village life is being studied in the Delhi and Bulandshahr areas.

The department sponsors research and development in a wide range of alternative energy technologies including solar thermal energy, where the sun's energy is used directly, solar voltaics, where it is used to generate power through a chemical reaction, biogas and wind energy. It also conducts research in the esoteric area of magnetohydrodynamics, where electricity is generated through the movement of fluid in a magnetic field.

Over the past three years, the department has invested some Rs2.38bn in renewable and non-conventional energy sources, claiming that the returns in terms of fuel and fertiliser saved are of the order of Rs2.3bn a year.

Against this achievement, however, proponents of India's nuclear power programme warn that alternative energy sources can make only a marginal contribution to the country's energy requirements.

Dr Raja Ramanna, a former chairman of the Atomic Energy Commission, noted two years ago that solar power is full of uncertainties, biomass production (growing crops on energy farms for direct conversion to fuel) can have adverse ecological effects, wind power can cater only for small-scale needs and geothermal energy (tapping heat deep in the earth's crust) has yet to be shown to be a technically and economically viable proposition. "Nuclear power," he concluded "is the only option for meeting the future needs of power in the country."

Be that as it may (and nuclear supporters are persuasive advocates), India's alternative energy programme has already changed the face of the country.

A typical example is the continued development of the smokeless *chullah* or wood-burning stove, now being installed at the rate of over 1m a year and "warming the hearts and hearths of rural India," in the words of Mr Maheswar Dayal, secretary of the DNES.

Another is the spread of biogas for cooking and power generation. According to the department, the 1985-86 target of 150,000 biogas plants was exceeded by 30 per cent and the current year's similar target will be exceeded by 5 per cent without extra costs. "A very welcome development this year," the department notes, "has been the increase in the popularity of latrine-linked domestic biogas plants."

These enthusiastic reports follow a period when the whole biogas programme was in danger of falling into disrepute. In 1986 the Comptroller and Auditor-General released a report indicating that many of the country's biogas projects were not working because of a lack of cow dung, the principal basic ingredient - it seems that 50 kilogrammes of dung is required daily to run an effective plant. That means three or four head of cattle, but the report found that many plant operators had as few as one cow each.

The most recent report from the DNES after "vigorous pursuit of schemes for the inspection and correction of older plants" indicates that 85 per cent of plants are operating normally. India's biogas programme, which should save over Rs1bn of wood annually has been termed a "brown revolution."

India is seeking appropriate technology as earnestly as it studies alternative technologies. In Hyderabad, for example, technologists working at CMC, the computer company, have developed a system which can be used to convert pictures into images on a personal computer monitor screen. Costing only some £20 compared with hundreds of pounds for Western versions, it consists of drawing arms linked by simple potentiometers (volume controls). Resistance changes are converted into positional information.

Another example is The Electronics Corporation of India (ECIL) which has developed a voting machine which it hopes will overcome the problem of fraudulent voting in the world's largest democracy. Each candidate's name and symbol is set next to a button. Pressing the button registers the vote and the total votes cast and the number for each candidate is automatically recorded.

The spectrum of Indian competence at both the high and low end of technology is complete; only the focus remains in question.

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Nuclear science

Justifiable pride in Taps, Raps and Maps

INDIA'S ENDEAVOURS in nuclear science, and its achievements in translating research into peaceful uses for atomic energy, show the country's technological capabilities at their best.

The nuclear programme was conceived and driven with single-minded intensity by the late Dr Homi Bhabha, after whom India's principal atomic research establishment at Trombay, near Bombay, is named.

Dr PK Iyengar, director of the Bhabha atomic research centre, says "today this centre exemplifies how science and technology can be grown in a developing country".

It was not until seven years after independence that the department of atomic energy was created, yet in little more than three decades, the country has advanced to the state where its nuclear power programme is ready to make a significant and much-needed contribution to electricity supply.

Its pioneering research reactors were the first east of Suez, with the exception of those developed in the Soviet Union.

And only 27 years after independence, it was able to explode a nuclear device in the Rajasthan desert. Dr MR Srinivasan, chairman of the Atomic Energy Commission, says dryly: "It is a much tougher proposition to build power stations than to build bombs."

Certainly, progress has been slower than had been hoped for. The country has an installed capacity of 1,230mw at present and intends to raise this to 10,000mw by the year 2000. That represents about 10 per cent of the country's power supplies compared with about 4 per cent now.

Dr Srinivasan says there have been technical problems and financial constraints which have delayed the build-up of capacity. Nevertheless, he says "we are at the point where we can take up the service task of building power stations."

India's nuclear power plants in service, at Tarapur, Kalpakkam (Madras) and Rana Pratap Sagar, and two to come on stream soon, at Narora and Kakrapar (the individual operating reactors are know affectionately as Taps, Raps, and Maps) are chiefly pressurised heavy water reactors (PHWR) based on a well-regarded Canadian design, Candu, but heavily modified to suit Indian requirements.

Dr Srinivasan says with quiet pride: "we are now confident that we can design and build reactors that will work well and safely. I cannot claim that they are the most advanced technically but they work and they work effectively."

The Indian nuclear scientists learned some of their lessons the hard way. The first PHWR, Raps 1, suffered a leak in one of its end shields. This required repairs of a particularly sophisticated kind, without the help of experience of a similar occurence anywhere else in the world to fall back on.

The leak was rectified without external help and the unit restarted and turned again to power generation.

The power generation programme is backed by an impressive array of fundamental research. Indian technologists are particularly proud of their work on nuclear chemistry where they have mastered the elements of the nuclear fuel cycle, of special importance in a country with limited known supplies of uranium.

At the Bhabha research establishment work is being carried out in a number of important areas, including condensed matter physics, lasers and spectroscopy and seismology. Less obvious topics include molecular biology, the basis for genetic engineering, biochemistry of mutation and nuclear agriculture. The research centre has, for example, developed varieties of pigeon pea, black gram and groundnut, now released for cultivation in Kerala state.

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MR PS DEODHAR, the charismatic chairman of India's Electronics Commission, graphically illustrates one consequence of the country's appalling telephone system.

"If you stop a local train in Bombay or put up a road block in Ahedabad at three in the afternoon and ask the travelling public their purpose, you will find a large number are travelling just to deliver messages or packages. Tell me, why do we move a 70 kilogram messenger all that way to deliver a letter weighing half a gram?"

The answer is that neither India's telephone system nor its data communications system are up to the job of modern business communications, the consequence of years of financial neglect. Until recently, telecommunications was not considered to be a national priority when compared to agriculture, water health and housing.

There has been a marked change of emphasis, however, since Rajiv Gandhi selected telecommunications, along with clean water and an end to illiteracy, as the country's key technology missions.

It will prove, however, a Herculean task. The country has about 3.5m main telephone lines and needs 10 times that number by the end of the century. The national telephone density is around 4 per 1,000 head of population, one of the lowest in the world; in developed countries a typical ratio is 800 per 1000 population.

Ten times the existing number of lines is needed

Telecommunications

Few homes have phones

Mr BM Khanna, general manager, Mahanagar Telephone Nigam, New Delhi (a Government company formed to take charge of telecommunications services in Delhi and Bombay), who played a key role in setting telecommunications targets for the seventh five-year plan, told journalists this year that Rs500bn would have to be spent in the next 13 years if a modern telephone system were to be installed by 2000.

To give some idea of the change in spending required, the Department of Telecommunications spent some Rs11.1bn in 1985-86 with capital investment totalling Rs8.5bn.

A recent World Bank report emphasizes the potential demand for more and better communications but argues that the real demand for equipment is not likely to grow by more than 15 per cent a year through the present Five Year Plan: "because of budget constraints on the Department of Telecommunications (DOT)."

The DOT and the telecommunications industry - represented to a large extent by the public enterprise Indian Telephone Industries (ITI) - agree that funds devoted to telecommunications have been meagre compared with the actual demand.

The DOT has had to make do with existing switching and transmission equipment, a patchwork of obsolete Strowger and Crossbar switching systems together with electronic exchanges built by ITI in Mankapur using technology from the French company CIT-Alcatel.

On the other hand, as Mr DK Sangal, Secretary of the telecommunications department points out, India has over the years at least kept in touch with modern technology including satellite transmission and optical fibre cabling. With a relaxation in Government regulations, there are over 80 examples of foreign collaboration in telecommunications equipment manufacture. And there is a new spirit of independence abroad.

Evidence of this is the Centre for the Development of Telematics, now developing a family of advanced digital switches designed specifically for use in India.

There are other bright spots: earlier this year, the World Bank approved a loan of $345m to improve telecommunications in New Delhi, Bombay, Calcutta and Madras. The overall cost of the project will be $2.05bn, the balance coming from the Government ($1.64bn), the overseas export credit fund of Japan ($60m), and the United Nations Development Programme ($2.5m).

Plans are well advanced to raise money for development through public offerings and the creation of a Telecommunications Finance Corporation.

Putting the bare statistics in human terms, the plan is for at least one telephone in every village by the turn of the century. The technology is available and the political will is strengthening. Finance remains a question mark, however. As Dr DV Gupta, managing director of ITI said: "If you ask me what is my first problem, it is money. And money is my second problem as well."

Alan Cane

Biotechnology

Begging bowl to bread basket

INDIA HAS already experienced dramatic and timely proof of the power of biotechnology. From independence through to the mid-1960s the country was largely dependent on the outside world for its food: "a country surviving with a begging bowl" as one commentator put it.

Now it is one of the world's major bread baskets, able to feed itself with enough left over to put by against emergency. These buffer stocks - some 22m tonnes of grain - are the chief reason why this year's drought will not raise the immediate spectre of widespread famine.

This transformation from dependence to independence was the result of the "Green Revolution" when the use of Mexican semi-dwarf wheat varieties, coupled with enlightened policies for irrigation, fertilisers and credit, resulted in a massive jump in food grain production - from 72.35m tonnes in 1965-66 to 150.47m tonnes in 1985-86.

But as Mr NS Randhawa, a top executive in the Indian Ministry of Agriculture points out: "Indian agriculture continues to face new targets, problems and challenges. Our food grain production has to reach 225-245m tonnes by the turn of the century to feed an estimated population of around one billion.

"This is a stupendous task. We have to meet our requirements for edible oils, milk and meat. The import bill for edible oils is already more than Rs130m. Besides these, our demands on other agricultural products such as fibres, fodder, fuel and timber are tremendous."

So it is no surprise that the government believes that biotechnology will play a vital role in the country's development.

A national biotechnology board was established in 1982 to be replaced last year by a separate Department of Biotechnology within the Ministry of Science and Technology.

This year the department is likely to spend some Rs179m, or just under one per cent of India's overall science and technology budget. Next year's spend should be twice as much.

Biotechnology, with its roots in baking and brewing, is an ancient skill. The most rapid progress today, however, is expected to come from very recently-discovered techniques - the manipulation of the hereditary material of the living cell (genetic engineering) and the manipulation of whole cells and tissues.

Dr DK Biswas, an adviser to the Department of Biotechnology explained that the immediate aim was to build up the country's research and development base through the establishment of "national infrastructure facilities (NIF)", national centres specialising in the newest techniques.

The list of established NIFs now includes the microbial culture collection at the Institute of Microbial Technology, Chandigarh, the plant tissue culture collection at the National Bureau of Plant Genetic Resources, New Delhi and the animal cell line and tissue culture facility at Poona University.

The country is moving swiftly to increase its pool of manpower trained in biotechnological methods through special programmes of short training courses and post graduate degrees.

Dr Biswas reckons that at least 2,000 trained biotechnologists will be required to carry out the department's ambitious plans; at present he estimates the total as about 200.

Research programmes under the sponsorship of the Department include:

● A project to examine the possibility of propagating bamboo plants through tissue culture techniques at Delhi University;

● The development of a natural substances derived from bacteria to kill malaria larvae being carried out at Anna University, Madras. If successful, the new biocide could substantially replace conventional pesticides;

● Work on microorganisms which can accelerate the leeching of metallic copper from copper ores.

The Department also sponsors biotechnology missions -its vaccine mission, for example, aims to immunize 85 per cent of all infants and all pregnant women against a variety of serious diseases by 1990. Carried out in conjunction with the Ministry of Health, it will mean extending vaccination services to 19m infants and 24m pregnant women over the next three years.

Recently there has been controversy over an agreement signed between the US and the Department of Biotechnology which would enable the US to test newly-developed vaccines in India. The department's secretary Dr S Ramachandran argued that the diseases covered by the agreement were specific to India: "There is no question of trying any vaccine we do not need."

Dr Biswas emphasized that India was well aware of the dangers inherent in genetic engineering research: "We are guided by the same safety procedures that have been adopted in other countries," he said.

* *Indian agriculture - extent and direction of progress, Yojana, August Special, 1987.*

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Space programme

Achievements are down to earth

ONE MEASURE OF the growing maturity of India's space community is the equanimity and resolution with which it faced the loss, earlier this year, of its *most advanced satellite launch* vehicle, the ASLV-D1 rocket.

Less than three minutes after lifting off from the Indian Space Research Organisation(ISRO) launch centre at Sriharikota, Andhra Pradesh, it plunged into the Bay of Bengal, the victim, it seems, of a motor malfunction.

The space scientists shrugged off the disaster. "Every programme like this has its setbacks" said Professor UR Rao, chairman of India's space commission.

But it was a time-consuming setback in a period which has also seen the US and Europe experiencing an unprecedented series of problems with commercial launchers. India's remarkable multipurpose satellite INSAT-IB was launched from the US space shuttle in 1983, but plans to launch a second, similar device late last year were scuppered when shuttle flights were suspended after the Challenger accident.

Now INSAT-IC is expected to be launched by Ariane, the Western Europe space vehicle, early *next* year. So there were *sighs* of relief at ISRO's Bangalore headquarters when the nineteenth launch of Ariane proved successful last month after a long delay due to technical problems.

India's aim is to be self-reliant in space, not self-sufficient. It spends comparatively little on its space programme - just over Rs3bn in 1986/87 - and looks for the maximum value for its money, using launch vehicles from the US, Europe or the USSR where necessary, and contracting out satellite construction where appropriate. Over 60 per cent of the space budget these days, however, is spent in Indian industries.

Professor Rao noted in a recent paper: "The establishment of a sound technological base during the last two decades through the successful design, fabrication and launching of seven scientific and application satellites, realisation of satellite launching capability as well as state of the art programmes such as the Polar Satellite Launch Vehicle, Indian Remote Sensing Satellite (IRS) and the multipurpose geostationary satellite systems (INSAT), all at a cost of less than Rs15bn, have enabled ISRO to provide vital services in the areas of communication, television broadcasting, meteorology and remote sensing to the mainstream of the nation."

The keystones of the entire programme have been the contribution satellite technology can make to communication, broadcasting and to remote sensing and measurement in a country as geographically large and physically diverse as India.

The ISRO took a pioneering role in some unexpected areas. It developed, for example, the first educational television programmes to be broadcast by satellite to remote villages, placing heavy emphasis on folklore and entertainment to capture the attention of the villagers.

"We had to demonstrate what could be done to the nation," says Professor Rao. "It was a tremendous, roaring success. Here was a system which, it was clear, could change things."

Similarly, the remote sensing programme, which started in the 1970s with instruments carried in aircraft and continued with the launch of the experimental sensing satellites Bhaskara-1 and Bhaskara-2 in 1979 and 1981, is now the key to the ambitious National Natural Resources Management System.

India's first state-of-the-art remote sensing satellite IRS-1A, designed to provide images with a resolution of 30 metres in four spectral bands, is scheduled to be launched this year from the USSR.

Analytical methods developed in India have already made it possible to determine, for example, that the forest cover in the country declined by almost 14 per cent between 1972 and 1985; the same techniques are used to predict the snow melt and run off from the Himalayas and to identify the location and extent of underground water in states such as Andhra Pradesh, Tamil Nadu, Utter Pradesh and Rajasthan.

INSAT, the Indian National Satellite System, remains a unique Indian achievement. Professor Rao says it has virtually revolutionised communications in the country. INSAT-1B carries 4,000 two-way telephone circuits, adding 80,000 route kms to the national communications network; the number of television broadcast stations has increased, from 12 to 187; and 2,000 direct reception television sets and 2,000 community television sets have been deployed in remote villages.

Professor Rao says over 80 technologies developed by ISRO have been successfully transferred in Indian Industry: "The benefits from space technology now being woven into our national fabric will be fully realised in the next decade," he claims.

AC

6: Finance and industry

Ray Bashford on attempts to liberalise policy

Flower of reform fades

MR RAJIV GANDHI, the Indian Prime Minister, has been forced to slow the pace of his radical plan to reform the nation's industrial policy.

Allegations of high-level corruption within the Government have tested the Prime Minister's political nerve and forced him to delay the implementation of further moves to liberalise industrial laws which could broaden rifts within the ruling Congress I party and strengthen the hand of opposition left-wing parties.

Senior businessmen in Delhi, Bombay and Calcutta express concern about the loss of momentum during the past six months and claim that an atmosphere of uncertainty has enveloped industry. They fear that the rapport created between industry and the Government during the earlier part of the Prime Minister's term may be threatened.

As the reform plan bloomed during the early period of Mr Gandhi's term of office, more liberal industrial licensing laws, relaxed monopoly controls and lower import restrictions acted as a stimulant to industrial efficiency and competitiveness.

However, there is a general feeling that Mr Gandhi is likely to tread with greater caution as he moves further into the second half of his term.

Mr SA Sabavala, director of the steel arm of the Tata conglomerate, believes the pace of reform will continue to slow as the election nears.

"Noises from the left will grow and he (Mr Gandhi) will be accused of being too liberal with the big industrial houses. This will force him to do a bit of a swing to the left, if more in words than deeds," he says.

Mr GP Birla, a senior member of one of India's leading industrialist families, also holds this view and is critical of what he sees as Government inaction.

"What the Government has done by hesitating at this moment is to create uncertainty.

"In my view we should either open up industry to free market forces or leave it closed. At the moment we have something mid-way and this is not good for industry or the country," he says.

The Government deemed it politically prudent last summer to hold back legislation on the contentious issue of monopoly control. This will impinge heavily on companies such as Tata and Birla.

The Companies (Amendment) Bill, the plank for a wide range of reforms, was also delayed for tabling until just before the parliamentary recess, meaning a wait until perhaps next year before it progresses through the House.

Government officials reject claims of soft peddling. "Industrial policies will be changed as need be, not just for the sake of change," says Mrs Otima Bordia, Secretary of the Department of Industrial Development. "There is no going back on our policies."

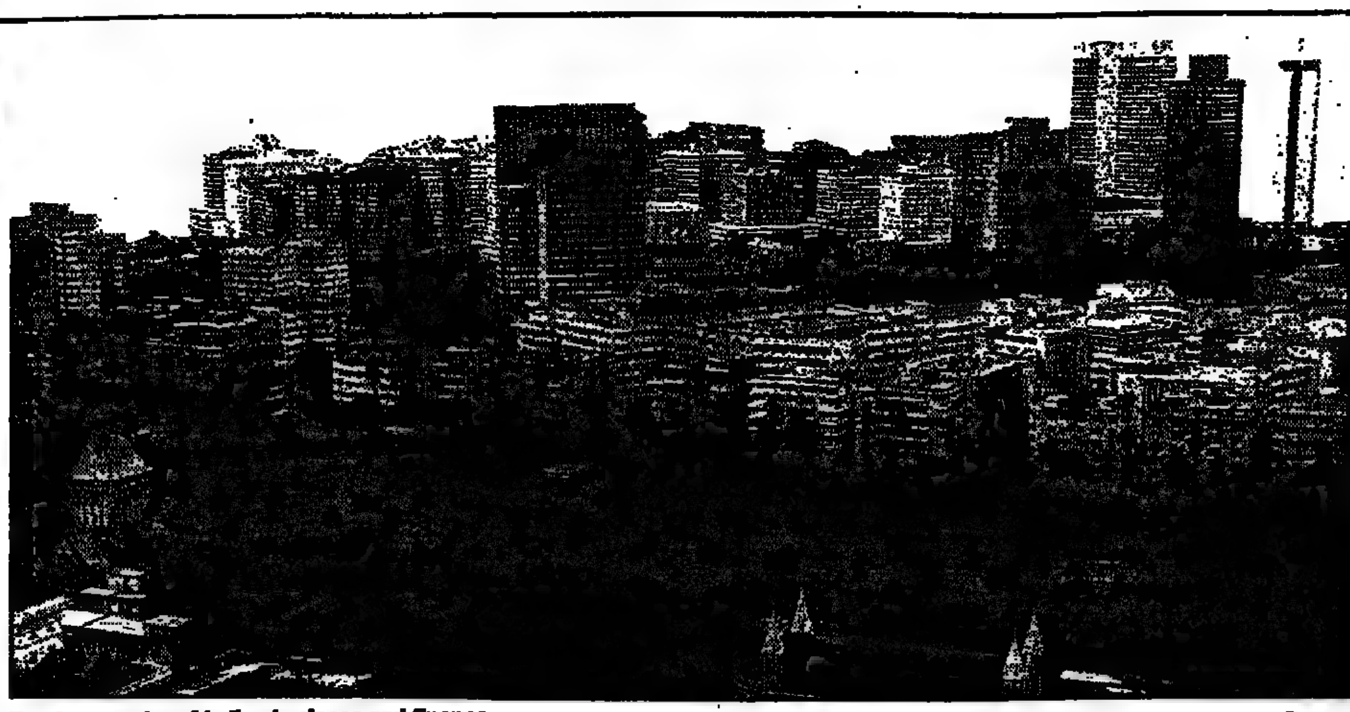
However, she expresses the caution of many senior officials when she says: "It is very easy to say brush aside all controls and let market forces play. This could have adverse effects on a developing country such as India. We must consider the impact on the consumer as well as the producer."

Mr J. Vengala Rao, the Industry Minister, recently gave a firm undertaking further to free the private sector's mobility and to speed procedures.

"We are removing many difficulties, so the need for entrepreneurs to come to this ministry for approvals will be removed," he said.

Despite reservations about the future, industrialists acknowledge that the liberalisation plan has made considerable progress towards opening up industry to competitive forces.

The growth rate of industrial production is expected to reach almost 6 per cent during the current financial year, subject to the impact of the drought, compared with 7.7 per cent during the previous 12 months. While this is well below the 10 per cent that Mr Gandhi is aiming for, it represents a strong improvement on the rates achieved before the industrial liberalisation plan was launched.



Bombay: centre of Indian business and finance

Private sector investment during the current 12 months will top public investment for the second consecutive year.

A large portion of these funds will come from the Industrial Development Bank of India, the Government's largest financing institution, which boosted overall assistance to industry by 17.1 per cent during the last financial year, compared with the previous 12 months.

The total allocated by financial institutions last financial year was Rs73.88bn (£3.7bn) against Rs66.1bn in the previous 12 months.

The slide on Indian stock markets in the past 12 months, in part due to the political uncertainty, has put a brake on new equity issues. But companies have been going to shareholders with increasing frequency for capital raising through rights and debenture issues.

Perhaps the most important departure from the industrial policy in force during the past 30 years has been the decision to relax industrial licensing laws.

Used as a government instrument to direct industrial development into areas considered most economically essential and to regulate output, the laws became a cumbersome, time-consuming impediment to expansion.

Mr Rao favours the removal of further licensing restrictions to promote expansion by companies into allied industries and boost output capacity in existing plants.

The decision to ease the restrictions in the cement industry is often cited as a prime example of how freedom of movement has encouraged growth. Installed production capacity in the industry has doubled in the past two years to 48m tonnes.

Through the introduction of "broad banding", companies in related industries have diversified into cement production, while the capacities of existing plants have been allowed by the Government to increase. Combined, these two influences have created over-supply in the industry and led to a reduction in prices.

The "two-wheeler" market of motor bikes, scooters and mopeds is also nearing over-supply, ending periods of intermittent shortages. Broad banding has led to a rush of new producers into the market.

While the removal of selected licensing laws has streamlined procedures, industry still complains that the delays between the time of application and approval are excessive.

"What should take us three to six months to get approval still takes 18 to 24 months, which is far too long," says Mr Sabavala.

The hands of India's major industrial houses remain tied by the Monopolies and Restrictive Practices Act (MRTP) and freeing their movement remains a major test for Mr Gandhi. Distrust among certain Congress I and Opposition members of the power that these companies wield will remain a reason for Mr Gandhi to act with care as he attempts to ease restrictions further.

Market dominance and asset size are the major factors in determining whether a company falls under the existing law.

As the first part of its reform the Government raised the minimum capitalisation from Rs200m to Rs1bn. However, this freed few companies because many fell under the parallel "interconnection" rules which lumps together companies with interlocking holdings of more than 25 per cent or similar board compositions.

At present 1,650 companies fall under the MRTP rules. A new proposal to double the capitalisation limit to Rs2bn would go a long way towards the Government's aim of reducing the number to 200.

The adverse effect that import liberalisation has had on foreign exchange reserves also worries the Government. The regulations were eased to facilitate greater access to foreign technology and equipment to speed modernisation. But this has led to a mounting import bill at a time when exports are being hit by depressed world commodity prices.

Elevating quality standards is vital to India if it is to expand exports and exploit the competitive advantages offered by a relatively cheap workforce. Despite the efforts to promote greater export orientation, there is a reluctance by Indian manufacturers to look beyond achieving domestic growth at existing quality levels.

Industrialists commonly refer to the size of the Indian population and the potential for domestic consumption, rather than consider the scope for exports. This attitude is contrary to a basic point in the liberalisation plan of encouraging a more outward-looking attitude and developing export potentials.

Mr Sabavala believes that little progress has been made in elevating production standards. "A whole new culture has got to be produced. The new, young entrepreneurs are trying, but the older ones are happy to keep on producing the same old goods," he says.

Mr Gandhi has taken on an enormous task in attempting to change such ingrained attitudes, a task equalled by the one he faces in Parliament if the process of reform is to continue.

Small scale industry

Risk of being squeezed out

INDIA'S SMALL scale industrial sector is voicing increasing concern over encroachment by medium and large scale companies into its traditional production areas since the relaxation of rules governing industrial expansion.

Organisations representing the sector say its survival would be jeopardized unless central government limits the erosion of the number of products reserved for exclusive manufacture by the small scale sector. As the majority are located in deprived areas of towns and cities or villages in underdeveloped areas, the government has historically afforded small scale enterprises high protective barriers in recognition of their value as employment generators.

However, in the name of greater competition and efficiency, the government has so far cleared the way for these larger scale companies to manufacture 30 items which were previously the preserve of small scale industry, cutting the total to about 850.

The government altered the definition of a small scale company by raising its maximum capital limit from Rs3.5m to Rs4.5m (sterling £175,000-£225,000) to encourage modernization. But the Federation of Associations of Small Industries says that this has only partly offset the impact of competition from larger enterprises. The Federation is particularly concerned about the loss of market share in the expanding area of consumer durables. It highlights the recent loss of exclusive production rights to table fans, TV games, radio and television coils and pick-up cartridges.

The Government has repeated its commitment to the sector in the face of this criticism and recently issued a statement saying that it is seen as "playing a crucial role in the overall development strategy of the economy".

The small scale sector employs 96m people in 13.5m units, with the majority engaged in engineering, weaving and electrical plants. The factories have an average national workforce of approximately seven people per unit. The larger units in the sector, usually employing about 50 people, are an important source of export funds, with a large portion of the goods going to Asian neighbours. Exports from the sector last year constituted 22.5 per cent of the national total in cash terms.

Central government's drive for modernization within the sector is directed at raising productivity, but more importantly in the short-term to boost quality. Relatively low quality standards are seen as an obstacle to export development in markets where it is competing against such countries as Taiwan and South Korea. Central government direct funding facilities have been created to aid modernisation, and field development programmes are also being encouraged.

Mrs Pushpam Joseph, a government economic adviser for the sector, says that the educational level of young entrepreneurs has risen sharply in recent years, promoting a higher awareness of efficiency. However, government financial support for so-called sick small scale industrial units is a drain on resources and is hindering development of the more viable units.

The number of companies in the sector which are unable to achieve even a break-even profit level has risen fivefold in the past six years to 1.7m. Unless efforts to halt the growth of failures are successful, the entire sector will be less able to withstand the competitive pressures being imposed by the larger industrial producers.

Ray Bashford

Public sector reform

Profits and jobs clash

THE CALL for change is echoing through the musty corridors of India's public sector enterprises. Mr Rajiv Gandhi, the Indian Prime Minister, has given public sector reform high priority in his industrial policy and leaders of major enterprises have been quick to embrace the chance for change.

The sector's problems have grown out of a failure to modernise production methods, poor management and a weak infrastructure, with energy shortages holding back development in all industries.

Of the 226 public sector enterprises, 128 operated at break-even or a marginal profit level during the last financial year while 90 incurred heavy losses. The main loss areas remain in the fertiliser, coal, engineering and pharmaceutical industries. Government life support systems are the sole sources of survival for many of these groups and their continuation is meeting increasing criticism as the reform plan progresses.

Though overall earnings showed a sharp improvement last year, 78 per cent of the pre-tax profit was derived from only 10 companies. The Oil and Natural Gas Commission, the state energy monopoly, accounted for half of all earnings with BHEL, Air India, Indian Airlines, Bharat Petroleum and the Steel Authority of India among the other major contributors.

It is the clash of opinion between those who want profit to steer the course of policy, and those who contend that losses are affordable if continued employment is assured, that is at the centre of the reform debate.

This balance of responsibility has been a highly contentious political issue for successive Indian governments. However, the employment ceilings which many companies have recently imposed are a marked departure from standard practice.

The possible privatisation of public sector companies has also been placed on the agenda, and the Prime Minister is reported to have personally requested the preparation of preliminary investigations.

The possibility that such a radical departure from established industrial policy might win favour during the life of this Government is remote. Opposition from the left-wing parties and conservative elements within Mr Gandhi's party would make public sector sales politically difficult. However, the very fact that they are being discussed is a measure of how wide the reappraisal is stretching.

Senior public sector officials admit that of the 2.1m workforce between 15 and 20 per cent could be considered excess staff. However, there is no suggestion of forced redundancies.

Discussion of greater autonomy for public enterprises has gained momentum during the last two-and-a-half years and industry leaders are clamouring for further evidence that the Government considers this to be a partial solution to the sector's problem.

Under the present system, public company chiefs operate within tight limits of responsibility imposed by central government and are often simply doormats for heads of departments.

Mr BS Samat, chairman of BHEL and a vocal proponent of greater autonomy, is one of many leading public company chiefs who believes his company's growth is being stifled by excessive government control.

"If I were allowed the freedom of the private sector, I would kick the hell out of some of those private entrepreneurs," he says.

A Government-commissioned policy paper on the sector prepared by Mr V Krishnamurthy, chairman of the Steel Authority of India, and several other senior public sector chiefs, concludes that greater freedom for the sector is central to reform.

The paper argues for the creation of a "memorandum of understanding" between the management of an enterprise and the central government.

It proposes that the companies be accountable to the Government on an annual basis and that they be set yearly production and expenditure targets.

This would have the effect of restraining the powers of the ministries to setting centrally co-ordinated plans for each industry and leave the day-to-day responsibility for operations to chief executives.

"For all my major plans for growth such as expenditure and diversification I have to get approval from Delhi and this takes up valuable time," says Mr Samat.

Mr Krishnamurthy speaks of "too many back-seat drivers" and complains that he is bound to seek approval from a ministry dealing exclusively with the steel industry for the expenditure of more than Rs200m (about £9m). The morale of senior private sector executives has deteriorated as a result of this interference and there have been some notable defections to the private sector in recent years.

He says that the calibre of candidates for employment has fallen during the period that he has been on the public sector selection board.

For the past two years the Government has been firmly enforcing rules relating to the acquisition of lame duck companies from the private sector. The Board of Industrial and Financial Reconstruction has recently been established to assess more rigorously these sick companies' future viability as independent producers or integrated parts of existing companies before rescues are launched.

For two decades many heavy private sector loss-makers were brought under the Government's wing as a result of this policy. To deal with the problems created, the paper recommends the closure of public enterprises which continue to incur losses five years after financial restructuring.

Of the 90 loss-making companies last year, 40 have been in the red for at least five years, and as a first step the paper suggests that public financial institutions should consider alternative methods of support to direct funding for companies in such dire situations.

The possibility of closures which this aspect of the recommendations creates raises a thorny political issue for the Government. There would be a sharp backlash from state governments, unions and the more left-leaning members of Mr Gandhi's ministry if shutdowns led to unemployment.

RB

Banking

Down to 20 a fortnight

INDIA'S COMMERCIAL banks are in a phase of consolidation after nearly two decades of rapid expansion.

Between June 1969, when the then Prime Minister, Mrs Indira Gandhi, nationalised 14 major banks, and March this year, the number of bank offices rose six-fold, from 8,262 to 53,565. From an average of 100 new branches a year in the 80-odd years of Indian banking before 1969, the number of new branches accelerated to 100 every fortnight.

But now the number of new branch openings has slowed to less than 20 a fortnight and the focus has switched to making banks profitable, cracking down on corruption, enhancing customer service, and introducing computerisation.

The Indian banking system, comprising 21 government-owned commercial banks, 396 country-level private commercial and rural banks, and several co-operative banks, has not been able to cope with the spurt in business. Control mechanisms have failed, corruption in banks has increased and loan repayments have fallen into arrears.

A World Bank study has listed low profitability and a high level of debt, estimated at nearly half of the loans due for repayment, as major weaknesses. The current drought has worsened the debt situation. Banks have moved to ease the problem by moving to convert debts into medium-term loans to be repaid over three years.

Some 40 per cent of Rs640bn bank credit is lent to 50m farmers, small businesses and self-employed in the countryside at less-than-normal interest rates in a move to fulfil the national objective of encouraging economic change.

Banks are to recover the high cost of rural lending by cross-subsidising from the market rates of interest charged to other sectors.

The Indian Government is collaborating with the World Bank on pilot studies in half a dozen districts throughout the country to enhance efficiency of the credit delivery system. A measure of the problem was recently provided by Mr MR Pai, President of the All-India Bank Depositors Association. He noted that Bombay customers have had to wait for eight weeks to get cash against a cheque drawn on a bank in Calcutta, 1,000 miles away.

The net result has been an instruction from the Reserve Bank of India, the country's central bank, to the commercial banks earlier this year, ordering them to pay interest for delays beyond 21 days, compelling more efficiency. Banks have responded by hiring special inter-city air courier services to speed up cheque clearance.

Commercial banks are now investing some Rs2bn in mini-computers and other equipment for housekeeping tasks and partial front-office mechanisation.

Corruption continues to be a worry. The heads of three banks were sacked last year and the Prime Minister has launched an overhaul of the banking system aimed at curbing the problem.

The central bureau of investigation estimates that corruption involving more than Rs100m was uncovered last year in raids on homes and offices of 50 bank executives around the country.

The 21 foreign banks in India, with between them 136 branches, do not have the same opportunities for expansion and diversification as Indian banks. But they still see prospects for expansion with investments by Indian companies offering scope for syndicated loans and other credits to cover equipment imports. Other overseas banks see business opportunities. The number of international banks with representative offices in India has risen to 19, against 15 a year ago.

India's nationalised banks, which account for 91.5 per cent of the total banking system have increased their aggregate net profits by nearly 50 per cent in the past two years after a setback in 1984, when their profits were Rs830m. Mr JS Varshaneya, chairman of Punjab national bank, says bank profits this year will be squeezed because the reserve bank has enforced a reduction ranging from 1 to 1.5 percentage points in the commercial banks' lending rates since last March.

The maximum interest rate which banks can offer is pegged by the reserve bank at 10 per cent for deposits of more than two years against 11 per cent on five-year maturities under the earlier system of administered interest rates. But the interest rate cut has not had an impact on deposit growth; in the 6 months to October, term deposits with banks rose by 9.5 per cent to Rs912bn.

RC Murthy

The Steel Authority of India is the crippled flagship of the public sector

New willingness to admit mistakes

A STATUE from Hindu mythology of a male figure firing an arrow into the heavens dominates the drive to the entrance of the Steel Authority of India Ltd (Sail) plant in Durgapur, West Bengal. The irony of this metaphor is as sharp as the well-honed arrow.

Sail is the crippled flagship of India's public sector, a symbol of the country's failure to fulfil the dreams for industrialisation held by successive prime ministers.

Started during the early years of Mr Nehru's term as India's first Prime Minister, the country's public sector steel industry has gone from being the world's cheapest to the most expensive producer. As the manufacturer of 58 per cent of the nation's output, it carries a large responsibility for the fact that India today is a net importer of steel.

The founders of the industry took immense encouragement from the Soviet model of large-scale steel plant construction and envisaged an industry with an annual output capacity of 100m tonnes by the end of the century.

The reality is that the five plants last year operated at an average of 63 per cent of capacity to produce 6.45m tonnes of ingot steel and by the turn of the century are aiming for a total output of 18.1m tonnes. The operating capacity of two plants was last year slightly less that 50 per cent.

However, production results in the first half of the current year indicate that the company is on course for a substantial increase in annual output. Production of saleable steel rose 15 per cent with the Durgapur plant registering a 34 per cent improvement.

Although this vision of 100m tonnes annual output came in the glow of post-independence optimism, a figure much closer to the target could have been reached if the 1970s had not been a decade of mismanagement and government neglect. A failure to modernise and maintain existing facilities has progressively negated the advantages of cheap labour and plentiful raw materials.

While the shock waves of the 1970s oil crises forced Asian and European producers into rapid modernisation, India retained the open hearth technology acquired during the early 1960s from the Soviet Union, West Germany and Britain.

This outmoded and poorly maintained equipment cut sharply into productivity levels and forced the company into a round of spiralling price rises which have continued into the 1980s.

The price of Indian steel has risen 87 per cent during the past eight years to an average product mix of Rs6,000 (around £270 a tonne) and another rise is expected before the end of the year. Central and state government surcharges and taxes account for about 25 per cent of this per tonne price.

Despite these price increases, Sail has been only marginally profitable during the past five years. Last year the company's earnings rose sharply to Rs1.59bn, but this still represents a return on sales of only 3.6 per cent.

Sail has dropped well down the world production league with its output dwarfed by the Soviet Union with 160m tonnes last year, Japan 98m tonnes, the US 74m tonnes, West Germany 37m tonnes, Britain 14.7m tonnes and South Korea 14.6m tonnes.

The gravity of Sail's problems, and the knock-on effects they will have for the downstream industries until the end of the century, are recognised as a major obstacle to Prime Minister Rajiv Gandhi's drive to stimulate industrial development.

Out of this realisation has grown a new willingness among senior management to admit mistakes and to question long-held priorities.

The reappointment of Mr V Krishnamurthy for a further three years as chairman is itself a break with tradition. If he completes his five-year term, he will be the company's longest-ever serving chief.

Five chairmen were moved in and out of the office in the five years before his appointment in May 1985. This uncertainty at the top has destabilised forward planning and demoralised other senior staff.

"It takes four or five years to see the results of any major undertaking in this industry," says 62-year-old Mr Krishnamurthy. "No one has stayed long enough to see the results of his actions, much less make course changes and improvements."

Mr Krishnamurthy has won the broad respect of senior management in India's private and public sectors, as well as the ear of Prime Ministers Nehru and Mrs Indira Gandhi, during the past 30 years.

The blueprint for his policies is contained in the "Plan for Action". The document stresses the importance of greater worker motivation as an essential prerequisite to successful modernisation.

"Perhaps we could find the money and borrow the technology but unless the men behind the machines are prepared to absorb this new technology and feel the need for change all this investment will go to waste," the chairman says.

To spread the message he has addressed 500 managers from all plants and established on-site workshops to encourage group action. These meetings have centred on the seriousness of Sail's plight, with a clear inference that more drastic remedial action may follow.

Mr Krishnamurthy refuses to be drawn on what else may be contemplated, although he concedes that with updated technology and the present workforce of 240,000, the existing output could be more than doubled.

Sail has enforced a no-hiring policy and introduced a golden handshake scheme to encourage early retirement. A further 50,000 workers reach retirement age during the next 10 years and they will not be replaced.

"In the 1960s we talked very proudly about the number of people employed. If, say, the Bhilai plant employed 35,000 people it was thought to be more important than a plant producing more steel but employing fewer people," Mr Krishnamurthy says.

The modernisation plans concentrate on the updating of present facilities to meet or expand existing capacities rather than greenfield development. It calls for an average expenditure of Rs1bn a year until the end of the century. The funds will be found internally and through independent financing without recourse to central government.

Production is planned to reach 10.5m tonnes a year by 1990 and then under two five-year plans to rise to 13.2m tonnes by 1995 and 18.1m tonnes by the year 2000.

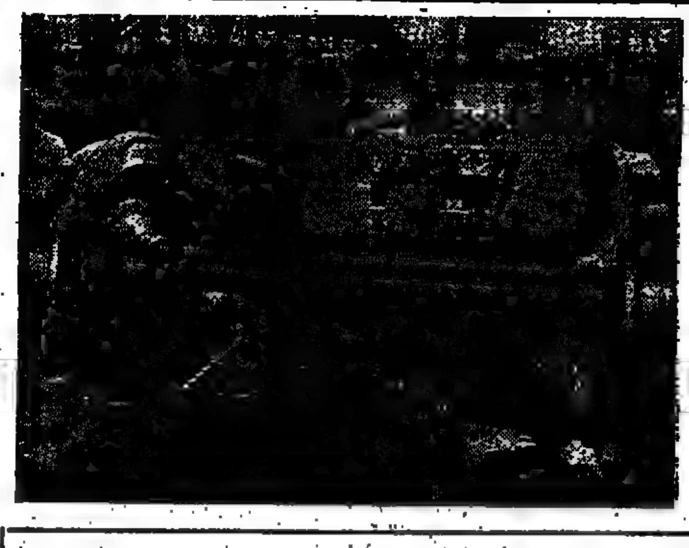
Higher beneficiation standards are urgently required to maximise the efficiency of the low grade coal and iron ore that remains for the company's use after export demands are satisfied.

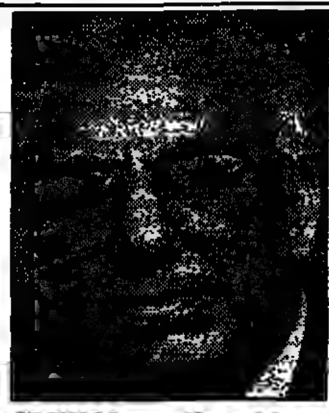
Sail is using coal with an ash content of 22 per cent, compared with between 15 and 17 per cent among Asian and European producers. The chairman says that each percentage point of ash content reduces the blast furnace efficiency by 3 per cent, giving European and Asian companies an output advantage of up to 21 per cent at this stage of production alone.

A vital test for Mr Krishnamurthy's authority will come in the next few months when the cabinet is due to give its decision on a modernisation plan for the Durgapur plant which will allow it to lift output by 70 per cent during the next five years and reach maximum annual capacity of 1.6m tonnes by the turn of the century.

The chairman's overall plan is also a test for the Government. Faint hearts and caution in Delhi at this juncture could rob Sail and India of a last chance to mitigate the impact of past failures and rebuild an essential element of industrial expansion.

Ray Bashford





Mr V Krishnamurthy: set to become Sail's longest-ever serving chief. Left, Durgapur steel plant: showing a 34 per cent improvement

Tata leads the way

The production and profit records of Tata Iron and Steel Company (Tisco) tower at an embarrassing height above those of the Steel Authority of India (Sail).

Tisco, which has been operating for 50 years as the foundation stone of the Tata family empire, is often cited as of model of successful large-scale Indian free enterprise.

The company's integrated plant at Jamshedpur in Bihar last year operated at maximum installed capacity to achieve record sales of 1.68m tonnes. However, sharply higher costs cut 1986-87 net earnings by 18.7 per cent from a record Rs1.07bn to Rs870m.

Unencumbered by the bureaucratic baggage that Sail has had to carry around, Tisco has maintained a long record of high expenditure on maintenance and stability among senior management.

Sail executives readily acknowledge the advantages which Tisco possesses. "The decision-making process is far quicker at Tisco," says Mr Arvind Pande, Sail's director of corporate planning and former adviser to the Prime Minister on science and technology.

Although Tisco is nominally part of the Tata group, the family holds less than 5 per cent of the capital with central government financial institutions in control of a large slice. The company has a blue chip rating on the Bombay stock exchange.

Tisco is in negotiations with central government to add 50 per cent to steel production capacity and is working with Korf of West Germany to introduce a more energy-efficient oxygen fuel furnace process.

India's 160 mini-steel plants, which last year produced 4.1m tonnes, are experiencing a grim time, caught between easing demand and cost increases.

Ten units have been forced to shut and several others are close to the brink. The plants still operating have a licensed output capacity of 4m tonnes a year, but the signs are that they could be running at an average of around 60 per cent, a 10 percentage point decline during the past 18 months.

These producers rely heavily on imported scrap but, as a means of plugging this drain on foreign exchange and of encouraging alternative methods, the Government has imposed a 20 per cent import duty.

Some states have also imposed tariffs of up to 100 per cent on power to the plants. This has added Rs150 to a Rs4,500 tonne of steel. These plants have always thrived in times of shortages, ready to boost utilisation to meet demand.

However, as Tisco plans to increase production, the mini-plant owners are expected to encounter further difficult times.

Stockmarkets

Road of major reform

INDIAN STOCK markets stood relatively firm last month in the face of the crash among world equities, insulated by rigid controls on foreign investment and dominated by domestic influences.

The All-Indian index moved between a narrow band throughout the turbulence on international bourses but continued the corrective phase which has been in progress throughout the year.

The bearish tone of the country's 14 exchanges, which has reduced the All-India index by around 10 per cent from its peak for the year, is a continued response to the overheated atmosphere that developed amid the euphoria of Prime Minister Rajiv Gandhi's initial moves towards industrial liberalisation.

His moves to loosen the reins on the expansion plans of industrial entrepreneurs and cut income and company tax rates provided the impetus for confidence in the private sector and shocked the bourses out of two decades of semi-somnolence.

Stock markets became an alternative to traditional property and gold investments for India's middle and lower middle classes and the All-India index doubled in 15-months as the number of shareholders rose by the same amount to an estimated 8m.

Malpractices such as insider trading, short selling and the issue of phoney prospectuses thrived in this atmosphere of unbounded confidence and novice investors who provided the ground swell of support for the sharp rise were hardest hit as the bubble burst and confidence evaporated in March last year.

Stock exchanges and government authorities are still learning the lessons of the crash and are endeavouring to create a more regulated climate capable of checking malpractice.

A major advance towards the formation of a centralised authority will take place next January when the Securities Industries Board is expected to launch operations. This national regulatory authority will be charged with supervising and policing all aspects of the securities and capital markets.

Its progress will play an important role in the central government's hope of developing mature markets as sources of higher private sector investment.

Brokers in Bombay, Calcutta and Madras readily acknowledge the scale of fraudulent dealing which led up to the dramatic reversal.

"A clever man could get away with anything that he liked. The stock exchanges were like small hospitals trying to deal with emergency cases," says Mr ER Krishnamurthi, advisor to the Madras Stock Exchange.

Mr Krishnamurthi was on a government advisory board which recommended the establishment of the Securities Industries Board and is well aware of the damage the reputation of the nation's stock exchanges has suffered.

"If we make the same mistakes again we won't have another chance to build up our nation's capital markets," he says.

The system of stock exchange self regulation in force at the time of Mr Gandhi's initiative was based on 1956 legislation.

The Securities Industries Board will take a broad area of authority away from the stock exchanges and aim to promote the creation of new financing instruments. The five-person board, the members of which are still to be announced, will have vastly enlarged powers to prosecute those who breach its code of conduct.

While the board's members will be central government appointees it has been promised autonomy. The failure of the present system of policing by individual stock exchanges is highlighted by the fact that no one has been prosecuted for offences committed during the 1985-86 boom.

To tighten controls further, each exchange will establish a governing board and operate under a jointly agreed national constitution. The boards will offer a 40 per cent representation to people outside the securities industry.

It is expected that senior officials from the central and state governments, the Reserve Bank of India and investment institutions will take up these non-executive positions, further diluting the exchanges' powers of self-regulation.

The establishment of higher professional standards in stockbroking will also be demanded. At the moment there are 2,200 stockbrokers in India of whom about 1,400 are active; many firms consist of little more than one man, a desk and a telephone.

According to a leading Bombay stockbroker, there are only 100 securities firms which have the skills and back-up to offer worthwhile advice. The stock exchanges and the Securities Industries Board will attempt to exert a vigorous control over new share market issues - this became an area of gross abuse during the boom.

Both authorities will have the authority to vet prospectuses and control the issue of the shares. A raging secondary market developed in new issues prior to their issue at the height of the boom with shares commonly being traded unofficially at up to 10 times their par value.

Many of these companies floated also had little more than a registered office, a flimsy set of accounts and an entrepreneur to support their formation. Efforts are also being made to form a national computer link-up between markets to aid standardisation of share prices. At present, only the five major bourses are in computer contact.

Central government is also pushing for the formation of a national rating system of the corporate sector, similar to the US Moodys or Standard and Poors, which would provide investors with an independent assessment of a company's performance and prospects.

Central government and stock exchanges have moved with surprising speed during the past year along the road of reform. However, the restoration of investor confidence will take considerably longer.

Ray Bashford

Calcutta Stock Exchange

Foreign involvement

UK loses industrial role

Foreign Collaboration Agreements

	1982	1983	1984	1985	1986	To Aug 1987
UK	107	119	123	147	130	84
US	110	136	149	197	189	101
West Germany	110	129	132	180	183	94
Japan	51	58	78	108	111	39

THE SOUTHERN Indian cities of Madras and Bangalore are among the very few places in the world where the word Leyland still dominates the roads, proudly splashed across the front of most trucks and buses.

This symbol of the UK's past domination of Indian industry is no longer valid because the British Rover Group's controlling interest in Ashok Leyland, based in Madras, is being sold to the Hindujas, a rich international Indian business family, working in partnership with Fiat Iveco of Italy.

Ashok Leyland is the latest of a long list of British industrial assets in India controlled by companies such as Chloride, GKN, Davy, Mather and Platt, Metal Box, and Dunlop, to be wholly or partly sold to one of India's large resident or non-resident industrial families. This is the latest example of the UK losing its role as India's major industrial partner. Others include a decline in the UK performance as a major trading country.

Also important is a sharp decline in the relative number of Indian students studying in the UK - there are now only about 1,000 a year in Britain compared with 15,000-18,000 in the US. This means that the next generations rising up India's industry and government will have MIT or Harvard backgrounds instead of their predecessors' British orientation from Oxbridge, the London School of Economics and Loughborough (an old engineering favourite).

Some of the UK companies, like the Rover Group, have sold because they have moved out of the products made by their Indian offshoots. But many others want to raise short term cash for investment at home and no longer have the interest, finance, or managerial time to turn their often neglected and ailing offshoots into efficient, profitable ventures.

But they are getting out at a time when companies from other countries are opening up, despite India's massive and frustrating operational problems, in what they regard as the world's biggest untapped market alongside China.

Du Pont, General Electric, Allied Signals, and Hewlett Packard are among many US companies carrying out or planning major financial and technological investments. Officials estimate that US industrial investment in India might rise from $500m to $600m within a year.

"We are trying to persuade US businessmen to take a look with a longer term perspective at the future of this great market, despite the massive short term problems. We are also trying to get the Indian Government to look at how to help with those

continued on next page

Subdued celebrations

THE DROUGHT and general political uncertainty has cast something of a shadow over the start of India's celebrations of its 40th anniversary of independence.

Planning began some time ago for more than two years of colourful, impressive celebrations to run until early 1990 and remind India's younger generation of the importance of India's freedom struggle in the country's history, of the work done by early political leaders, and of the country's culture.

The start was on August 15 this year, the date of the 40th anniversary, and the plan is for these celebrations to merge after 12 months into a year's commemoration of the 100th birth anniversary, on November 14 1989, of Mr Jawaharlal Nehru, India's first Prime Minister.

The anniversary of the assassination on January 13, 1948 of Mahatma Gandhi, leader of the freedom struggle, will be commemorated next January, and finally there will be a celebration of the 40th anniversary of India becoming a republic on January 26, 1990.

When Mr Rajiv Gandhi climbed to the ramparts of India's massive Moghul Red Fort in Old Delhi, however, to launch the celebrations on August 15 he addressed a country in a sombre mood.

A *tamasha*, as Indians call a public extravaganza, seemed out of place. The country was more concerned about the drought, then at its height, plus the shock of unusually violent communal clashes between Hindus and Muslims in north India, Sikh terrorism stemming from the Punjab, and credibility problems facing Mr Gandhi's Government.

Sensing this mood, and in line with a general curb on public expenditure, the Government cut back on costly large celebrations. Illuminations were reduced to save electric power, firework displays were curtailed, and a lot of other cultural activities were trimmed.

Now the programme through to the beginning of 1989 is to concentrate on helping the worst off, setting up commemorative programmes on projects like water supply and land reform, improving public institutions, and producing historic mementos including tapes of freedom speeches and songs.

"We want to build up a sense of alert patriotism. So it is an introspection and a reflection on where we have reached in 40 years," says Mr P Morari, the senior civil servant in charge.

John Elliott

THIS SURVEY was written by John Elliott, South Asia Correspondent based in New Delhi, with Ray Bashford, Alan Cane, and Michael Prowse from London, who toured India in September with FT photographer Ashley Ashwood. Other contributions are from local FT correspondents, KK Sharma in New Delhi and RC Murthy in Bombay, plus Tavleen Singh in New Delhi.

Discrimination against women begins virtually at birth, writes **Tavleen Singh**

Largest group of second class citizens

INDIA'S LATEST folk heroine is an 18-year-old girl who was burned alive in her husband's funeral pyre in the western desert state of Rajasthan in September. *Suttee*, as this form of suicide is called, has been illegal since it was banned more than 150 years ago by the British. But the district administration was unable to prevent a crowd of over 5,000 people collecting to watch Roop Kanwar burn to death, dressed as a bride and with her husband's head resting in her lap.

Later most people claimed they had seen her smiling peacefully throughout, and the handful who admitted that she had screamed, and tried to escape, chose to remain anonymous. For the vast majority of Hindus, and especially for her proud rural Rajput caste, she had become a *suttee* which literally means a true woman.

This event, regarded by many people as a murder, and described by Mr Rajiv Gandhi, the Prime Minister, as "utterly reprehensible and barbaric", illustrates the dramatic contrasts of the treatment of women.

There has been a woman Prime Minister, the late Mrs Indira Gandhi, and women have also taken many other top jobs running business empires, managing hotel chains, editing magazines and even flying aircraft. That is in urban India, where educated women fit easily into an increasingly sophisticated consumer society.

But there is another side to women's fortunes in a male dominated society. As many as 600 women in New Delhi are estimated to be burned each year in dowry deaths by husbands' families unhappy over riches brought to them by a bride. Hundreds of women each year are subjected to physical and publicly harassment by men in buses and other crowded areas.

It is in the rural areas, however - where 77 per cent of India's 380m women live - that the contrasts are strongest, as the *suttee* events have shown. Roop Kanwar's death was celebrated for two weeks and over 200,000 people came to the little village of Deorala to pay homage to her memory.

Despite Rajasthan being in the midst of the worst drought for 100 years, and despite government opposition, Roop Kanwar's husband's family has been able to collect vast sums of money - which they say is being used to build a temple to her - because, through the single act of having died for her dead husband, she has become a goddess incarnate. Had she chosen to live she would have been shunned in her proud Rajput caste - forced to wear widow's white, never able to remarry, and without any meaningful role left to play in either her parents' or her husband's home.

Despite their neglected status, the economy of rural India virtually depends on the unpaid labour of women

In Delhi there is today a Minister for Women's Affairs. Mr Gandhi was so overwhelmed by the support he received from women during the last General Election that almost the first thing he did after becoming Prime Minister was to set up a separate Ministry for Women. The Minister, Mrs Margaret Alva, was quick to condemn the *suttee*, but when asked whether it was not shaming that the Government could not stop such acts she said: "I don't think it's shaming at all. There is a Home Ministry and there are plenty of murders. After all, how much can the Government do?" Other politicians have usually tried to avoid the issue.

The Government, to be fair, has tried to do a great deal for women in the past 40 years since India became independent. Laws have been passed to give women equal rights to property and equal opportunity in the fields of education and employment. The fact that they still constitute India's largest group of second class citizens is largely because social attitudes have changed slowly, particularly in rural India.

Discrimination begins virtually at birth: the infant mortality rate is much highers for girls at 52.1 per thousand than the boys' figure of 44.7. Health workers in rural areas say this is mainly because parents are less inclined to spend money on a sick baby girl. The same attitude is reflected in education. According to government figures, less than a quarter of women are literate, whereas the figure for men is nearly twice as high.

Ironically, despite their neglected status, the economy of rural India virtually depends on the unpaid labour of women. According to a recent survey by the National Commission on Self-Employed Women, over eighty percent of women, including nearly all in rural areas, are in the small non-unionised or unorganised sector.

Most work as unpaid agricultural labour in the villages. They look after the animals, collect food, fuel and drinking water, and they also work in the fields where they do everything other than actually ploughing the land. Mrinal Pande, editor of a radical women's magazine and one of the members of the commission said: "The trouble is that most women in agriculture are invisible workers and one of the purposes of setting up this commission was to try and make them visible at least".

Women's groups, which have made little headway in rural areas, tend to be headed by urban, middle-class women who find it hard to comprehend the issues that would motivate women in the villages.

"The biggest women's issues in rural India are fuelwood, drinking water and fodder. In some villages, women spend their whole day finding and fetching these three things. Most of us here in Delhi don't see these as women's issues and this is probably why we have had so little success in the villages," explains an activist of Saheli, one of Delhi's largest women's groups.

In urban India, on the other hand, the women's groups have managed to achieve a great deal in the past 10 years or so. Pressure from them has led to important changes in rape and dowry legislation as well as in laws related to employment and equal wages. They have also been responsible for stirring up a wave of public anger against the burning of the young brides who do not bring enough dowry to satisfy their husbands and mothers-in-law.

Although there is a Dowry Prohibition Act, the police tend to avoid registering a murder case against the husband's family and it has really been on account of pressure from the women's groups that such cases have come to court at all. Despite this, the number of young women who are mysteriously burned to death in their kitchens is astoundingly high - more than 600 died in Delhi alone last year.

It is a long way from the plush women's offices in the hotels and business empires of New Delhi and Bombay to the flames of a husband's funeral pyre in Rajasthan. But if the pace of recent change in Indian cities is any indication, village life could also change very fast once change begins. So maybe in the next 20 years the women of rural India will begin to make the seemingly impossible jump from the dark ages to the twenty-first century.

continued from previous page

short term problems," Mr Louis Laun, a US Department of Commerce assistant secretary said in Delhi recently.

The US and West Germany have been striking more new technical transfer and equity agreements than the UK for several years. Although final official figures are not yet available, the US has for the first time overtaken the UK in the cumulative number of industrial collaborations agreed since counting started in 1957. By the end of August the US had reached 2,316, just four less than 2,320 for the UK. The figure for West Germany was 2,127 and Japan was in fourth place at 1,068.

Because of the uncertain political situation in India, there is some slowing down in the annual total of collaborations generally being struck by all countries. The total is down from a record 1,024 in 1985, which reflected the first flush of Mr Rajiv Gandhi's opening up, to 957 last year, and only 459 by the end of August this year. Japan's total, especially, has recently fallen off.

But the US still leads, and if defunct agreements are excluded, it probably now has approaching 1,000 live collaborations, judging by estimates made a year ago by the US Embassy in New Delhi. This is assumed to be well ahead of the UK, which has made no comparable estimate.

The UK is even further behind on financial collaborations alone, which involve taking equity stakes in joint venture companies. Indian Government figures from January 1984 to August this year show that the UK struck only 76 financial collaborations compared with 197 from the US, 121 from West Germany and 44 from Japan.

In the first six months of this year the amount of investment approved from the UK totalled only Rs5.7m, compared with Rs63.6m from the US, although Pilkington, Plessey, Marconi, and STC are among those planning or looking for manufacturing joint ventures. Rank Xerox is beginning to make profits with a 40 per cent equity stake in a four-year-old paper copier plant, and Gillette wants to increase its equity stake from 24 to 30 per cent in a successful razor blade venture.

It is, of course, inevitable that the UK has increasingly to yield some of its industrial dominance in India, especially when its own position as a world industrial power is declining.

UK two-way trade has dropped in relation to other countries, which are often more energetic and enterprising at marketing. In 1985-86 for the first time it fell behind a European country - West Germany. The latest figures, for 1986-87, show West Germany at Rs26.72bn (\$1.72bn) and the UK at Rs23.58bn.

John Elliott

Foreigners in India

Ways through the maze

"FORTY YEARS of no maintenance," grumbled a frustrated British engineer in New Delhi, when asked for thoughts on India's four decades of independence.

India thrives on proving that grumble correct by daily showing scant respect for other countries' minimum standards of quality, efficiency, and cleanliness. The failings are accepted by a population which is resigned to constant shortages and breakdowns, but whose frustration seems to be cushioned by the Hindu belief in *darma*, or the inevitability of one's destiny.

"Maintenance is not the only problem - quality of new products is also poor. It will be better for you to keep your old machine so the mechanic knows what's wrong with it - he won't know what's wrong with a new one," I was told by a friend when I wanted to change my news agency tape machine because poor maintenance was causing it constantly to break down.

Reluctant to put up with a horde of new and old mechanics investigating the insides of a new machine, I took the advice - which proved correct. Another step had been taken in the long learning process experienced by every foreigner who wants to be successful at doing business, or merely just at living, in India. The alternative to learning, which is chosen by some, is to cocoon yourself in your embassy compound if you are a diplomat, or just give up and leave the country if you are not.

"I call it 'India fatigue', the result of learning to cope with India and above all learning to wait for results," says the European head of one major multinational. "The Americans get it quickly and go away. Europeans get it after chasing a contract for a couple of years. Japanese are Asians so they are prepared to wait."

Quite often that fatigue can be eased by paying *bakshish* or bribes, varying from a few rupees for a simple service to millions of dollars for a major contract. (I have often wondered whether my news agency machine was continually breaking down because the engineers hoped to force me to pay up - which I did not do. The breakdowns eventually stopped.)

Despite Mr Rajiv Gandhi's much publicised attempts to clean up the administration, bribes are still widespread. Corruption has got worse in the last three years. You have to pay for everything now - even an office attendant wants between Rs5 and Rs20 (about 25p to over £1) to takes your visiting card quickly into a government official. "It may be less prevalent at higher levels in Delhi, about that I'm not sure, but it is certainly worse down the line," says a top industrialist.

The corruption thrives in a country which is swamped with bureaucratic controls and authority, but which nevertheless functions through a complex network of informal and often corrupt contacts stretching from the village to the top of government. Who you know and who you are related to, or who you can claim to be connected with, are the important keys to success. Without such contacts you are lost, whether you are a poor rural farmer, a senior industrialist, or a foreign businessman.

This system is lubricated every night of the week in the main hotels and smart housing colonies of New Delhi which are awash with Scotch whisky, usually mixed with ice and soda (risk a little ice but avoid the water), and exotic tandoori kebabs and other Indian delicacies.

The socially popular and influential will sometimes appear at several such functions during an evening, seeking out important and well-connected fellow guests, peddling gossip, and trying to exert gentle pressure on decisions.

Often the gossip is intentional dis-information - another primary ingredient of Indian political and commercial life. Read in a newspaper that a minister has got some problem or other, a government policy is running into snags, or a company tender for a project is inadequate, and you can be sure the story had been planted by the subject's opponents or rivals.

India's press is one of the most gullible, as well as one of the most free, in the world. Facts are rarely checked or related to previous stories, especially if they are supplied by friends. The fun of spreading gossip far outweighs concern for accuracy and balance. Few people in power seem to want to change the system because they all use it. They also all recognise disinformation when they read it or hear it, and then they enthusiastically pass it on if it helps their own cause in some way or other.

To find one's way through this maze, foreign companies have traditionally been recommended to employ Indian agents. But agents are now officially banned by the government, especially on defence and allied deals. The aim is to try (ineffectively) to stop the sort of middle-man payments which have caused a major scandal over a \$1.4bn. Bofors gun contract.

"Consultants" are permitted, providing they only do jobs such as fixing appointments, and do not become involved in negotiations. This illogical and impractical distinction has caused chaos for many foreign companies, slowing down various negotiations, and is not yet resolved.

The problem is that someone, whether called an agent or a consultant, is needed to help steer foreign companies. Someone has to advise on the power centres in a government which often seems to operate from the bottom upwards, with obstructive medium to low level directors and under-secretaries often blocking the wishes and decisions of top civil servants.

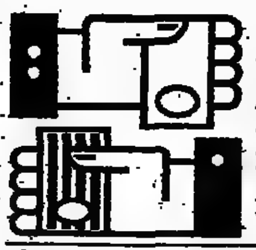
A British banker, widely welcomed by top officials when he arrived in Delhi, wanted a telex installed. But the Delhi Telephones commercial officer merely wrote:

Dear Sir,
Your request dated xx for a temporary telex is regretted,
Yours sincerely...

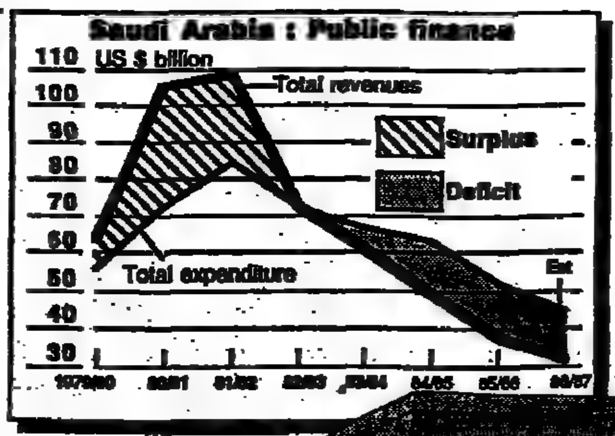
John Elliott

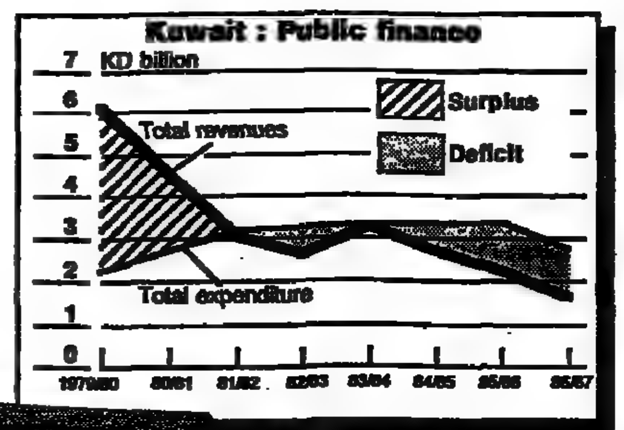
SECTION IV

FINANCIAL TIMES SURVEY



While the Gulf war has impeded business confidence, steps taken by banks worldwide to cushion themselves against developing countries' debt have forced many Arab banks to recognise problem loan portfolios, writes **Stephen Fidler**. A conflict between western-style banking systems and Islamic law persists in some countries, as does a general shortage of good managers.





Source: The National Bank of Kuwait

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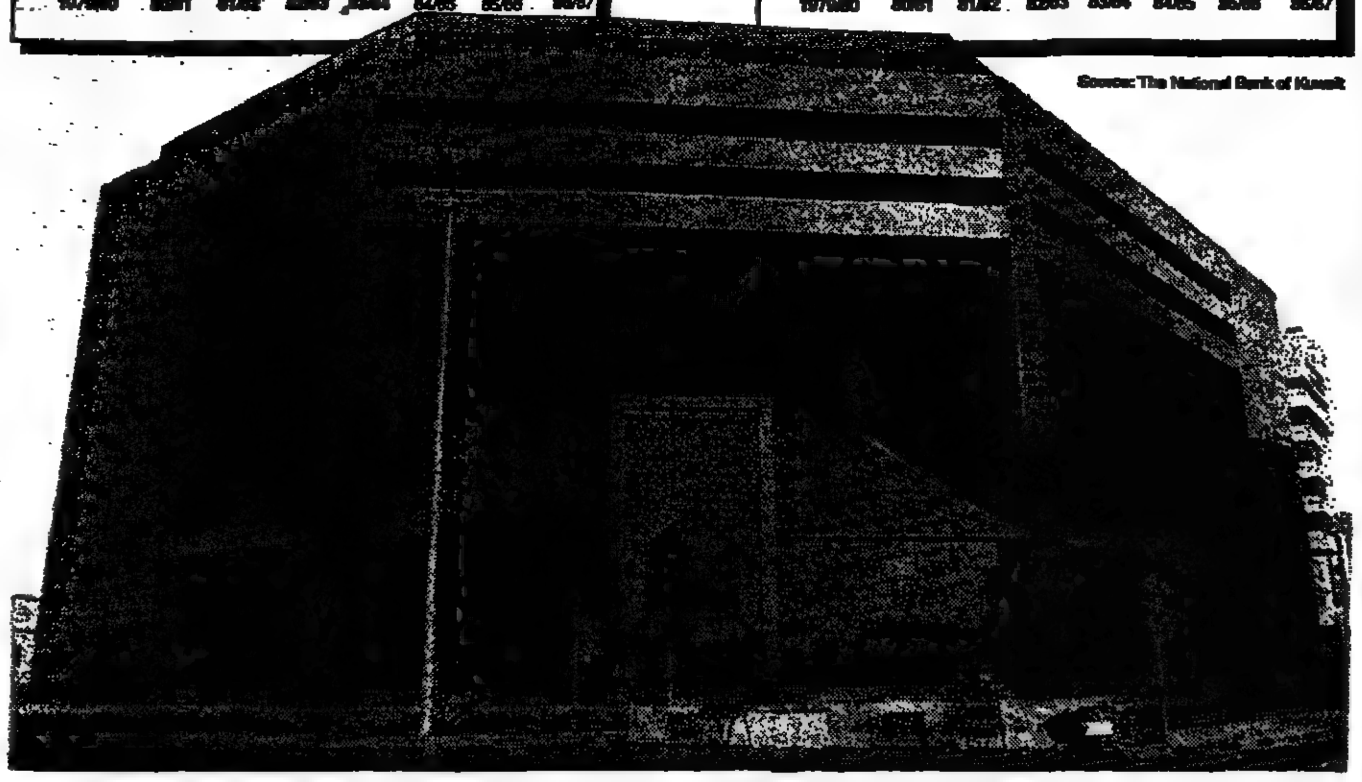


Arab Banking

Wait till the war's over

UNCERTAINTY STILL hangs over Arab banking, like a lingering sandstorm.

The regional downturn, brought about by the fall in oil revenues, shows signs of levelling off, but there is no expectation that business confidence in much of the Arab world will rebuild significantly until the end of the war between Iran and Iraq, now in its eighth year.

Meanwhile, many Arab banks must live with loans to businesses in the region that have turned sour, and with a lack of new business opportunities that offer risks they are comfortable with.

Many, too, must adapt to another development which has caused banks worldwide to re-examine their balance sheets - the moves by banks, particularly in the US and UK, to step up sharply the level of provisions to cushion themselves against the debts to developing countries.

This has resulted in a significant downgrading in the assessment of the real value of these loans, and has left many banks in a quandary. How will their capital stand up to a more pessimistic rating of their portfolios?

It would certainly be difficult or impossible for some of the offshore banks in Bahrain, for example, to take these provisions. The problem there has thrown up one possible solution - the creation of a special company to take over the Third World debt of these banks. A similar move by Japanese banks had been motivated by tax considerations, however, and it remains to be seen what the accountants will think of such an apparent sleight of hand.

Nevertheless, there have been a number of moves by other Arab banks to get around the problem thrown up by their problem loans, and more such solutions may well be seen.

The Paris-based FRAB-Bank International is to be subsumed into the National Bank of Kuwait, which now owns all but a handful of FRAB shares. It will become NBK (France) SA, and the move which will give NBK a foothold in the French market and a small offshore banking unit in Bahrain. As part of the plan, NBK, which itself does not have a large portfolio of Third World loans, will take on FRAB's sovereign debt.

London-based Saudi International Bank, which includes SAMA and Morgan Guaranty among its shareholders, has recently cut back on its staffing, but is also proposing that its shareholders take over its troublesome debts.

In an environment where international banks are becoming more selective about their lines to Arab banks, the questions of who the shareholders are, and where the bank is based, have taken on a heightened importance.

Strong bank shareholders are in an especially good position to take over troubled loan portfolios, while most governments would be expected to be concerned to protect the reputations of banks in which they are significant shareholders.

In Bahrain, the monetary agency has used strong shareholders to provide support for banks. Thus the bin Mahfouz family, which controls National Commercial Bank of Saudi Arabia, was called in to rescue Arab Asian Bank, of which it was a shareholder. The price, it is said, was $1, plus a little-known agreement which effectively protects the bin Mahfouz from major losses on the Arab Asian portfolio.

Kuwaiti shareholders have provided support in other cases - for example, to the Bank of Bahrain and Kuwait, where the original Bahrain shareholders were none too happy about putting in more capital.

Most important, though, is the question of whether a bank is succeeding in its business, or has developed a strategy that is likely to succeed. If the sandstorm has cleared at all in the last year, it is to the extent that it is easier to see which are the winners and which the losers among the Arab banks.

Some banks were clearly in a better original position than others - institutions such as Arab Bank, or even National Bank of Bahrain, have a deposit base, local markets to serve, and can make money from traditional banking services. But where is the natural business for an offshore bank with headquarters in Bahrain, for example?

A few banks have strong domestic positions and have achieved success internationally, such as National Bank of Kuwait which was lucky, or prescient, enough to start its international growth after the crash of the market for sovereign lending in 1982.

Other banks have mapped out well-defined strategies. Arab Banking Corporation, for example, an offshore bank based in Bahrain and owned by the governments of Kuwait, Abu Dhabi and Libya, is apparently trying to cushion itself from the regional recession.

It has effectively established itself as a holding company for a group of banks worldwide, in Spain, West Germany, Hong Kong and elsewhere. The success of the strategy, which could present difficulties of cultural integration and management supervision, remains to be seen, but the bank has not allowed the impression to develop that it is inactive.

ABC's arch-rival in Bahrain, Gulf International Bank, owned by the seven Arab Gulf states, has had a succession of leaders and no clear sense of direction has emerged.

At one time, it seemed as if the bank was heading towards a strategy which would lead it to become a pan-Gulf retail bank. Sources in the Gulf said that the bank held talks during 1986 with Hongkong and Shanghai Banking Corporation over its British Bank of the Middle East subsidiary, but it is not clear what path they took.

Earlier in the year, bankers in the Gulf were heartened by developments in Saudi Arabia, where they had been beset by problems in recovering loans. There, many debtors had shielded behind the proscription in Islam on usury and have received support against the banks from the country's Sharia courts.

Hopes were lifted by some rescheduling agreements for important borrowers, such as Arabian Auto Agencies, which signed a deal covering $186m in debts, and the Saudi Research and Development Corporation (REDEC) of Mr Ghaith Pharaon, covering $340m. Yet, some of this optimism was dashed this month when AAA fell into arrears on its repayments and the accord, which was held out as a model for others to follow, appeared to have collapsed.

Nevertheless, the Saudi Arabian Monetary Agency has lifted a ban on mortgage lending and set up an arbitration panel on disputed debts, and is encouraging creditors and debtors to write in clauses in loan agreements which bind them to the panel's decisions in case of a dispute. The panel's first judgments have been slow to emerge, but there are suggestions that in early rulings, albeit perhaps on fairly clear-cut issues, the panel has shown itself sympathetic to the banks' point of view.

Saudi Arabia is not the only country to have had difficulty resolving the contradiction between the legal systems based on Islamic law and a banking system based on western or international practice.

It is part of a more general problem, which is particularly acute in the Gulf. Economic development in most of these countries started only two decades ago, which makes it less than surprising that the legal and regulatory framework has been inadequate in coping with the demands of a sophisticated banking system.

That said, the banking authorities have steered a course for problem institutions which has been largely successful. The solutions may not always have been elegant, but so far they have been able to maintain confidence. Yet, as they are well aware, there are undoubtedly further tests to come.

If such are the external obstacles faced by Arab banking, there are other obstacles to progress of the banks' own making. By broad agreement, many Arab banks suffer from a lack of good management. Mr Ibrahim Dabdoub, Chief General Manager of the National Bank of Kuwait, called in a speech earlier this year for more effective management of Arab banks, and for strategic planning to be adopted as a "corporate culture rather than a corporate exercise".

Part of the problem reaches back to the days of the oil boom, when the expectations of many young men ran ahead of their capabilities. Since the end of the boom, few banks have vigorously managed their personnel, and bankers argue that in some countries employment laws militate against this. This has been overlaid on another problem: too much interference from boards of directors in the management of banks.

There is still a huge pool of capital in both government and private hands in the Arab world. But when times get tough, there is little room for sentiment in banking: a bank will get the business it deserves. For many Arab banks, the key to success and even survival, through to the economic upturn that they hope will come in the 1990s, is held by their success in strengthening management.

Investment banks in the Gulf

Exploiting niches

TO MANY commercial banks in the Arab world, the prospect of switching the focus of their activities into investment banking seemed to be a solution to the shrinkage of their commercial banking business.

Investment banking was usually defined broadly, as much by what it did not mean as by what it did mean. What it did not mean was making loans, the business that had brought about the difficulties which had led them to revise their strategy in the first place.

It is clear that, with some exceptions, the idea of switching to investment banking has been little more than wishful thinking. The world is not short of financial intermediaries - witness the retrenchment by some of the most powerful Wall Street houses - and therefore for Arab banks success has depended on the identification of niches that others have not been adequately filling.

Swiss and US banks had a large measure of success in selling their investment products to high net worth individuals in the Gulf. US investment banks such as Morgan Stanley and the UK merchant banks, acting as corporate advisers, have perhaps been the main beneficiaries of the spate of reschedulings which have been arranged in the last year or so for Saudi and other companies.

More recently, the Japanese securities firms have made their presence felt, having a large measure of success in selling Japanese securities in the region. In Bahrain, as other foreign banks have been scaling down or pulling out, Japanese firms such as Nomura and Daiwa have been increasing their presence.

One Arab-owned firm that stands out as having successfully exploited a niche is Investcorp, based in Bahrain but with offices in London and New York. The firm has expanded profits every year since its inception in 1982, and profits in the first nine months of 1987 already exceed those for the whole of last year.

Its president and chief executive officer, Mr Nemir Kirdar, says this success is based on the belief that "in the areas we want to produce, we have got to be as good as the best in the industry".

The firm has four lines of business: corporate investment, real estate investment, portfolio management, and trading. It has specialised particularly in the arrangement of management buy-outs, perhaps the most famous of which was the deal it engineered for Tiffany, the New York jeweller.

The firm receives fees for arranging the deals, but is generally a short-term holder of the risk. The debt and equity assumed in the deals are substantially sold down in two to five months, although it keeps some equity for its own books and to offer to clients in the Gulf.

Investcorp decided to shift its focus away from the US and toward Europe earlier this year. It has bought and aims to rebuild the prestigious Parisian jeweller Chaumet, which became bankrupt in an extraordinary family scandal, and the watchmaker Breguet. More European acquisitions are expected by the end of this year.

Mr Kirdar says the firm's strategy has not been blown off course by October's stock market collapse. The firm's deals had been done, not on the basis of a quick profit based on rapidly rising equity values, but on a longer-term view of the underlying business and of management which had for the first time been given an equity stake in their own business.

"If we've done our homework right in the purchase of these companies, then the effect will be manageable. The cash flows will be there, and the debts that were created will be serviced," he said.

There may even be a positive aspect of the share crash from the firm's point of view. Investcorp had turned down a number of deals this year, which it regarded as too expensive. "I think we'll see better values in 1988 than we've seen for much of this year," said Mr Kirdar.

Investcorp is one of the few such firms to have developed business away from the Arab world, and this has happened faster than even its instigators thought likely. Many others have met little success in this ambition, and their fortunes have been tied as a result to the economies of the Middle East.

But Investcorp is a highly specialised company, and does not aim to cover the waterfront of investment banking. There are clearly gaps for other Arab banks to fill. For example, there is a shortage of good corporate advice by Arab banks for Arab businesses, and banks such as Arab Banking Corporation are hoping to develop this.

Arab governments are increasingly inclined to issue financial instruments, and there is potential for development of insurance and investment trust business in the various local markets. Nevertheless, some authorities, such as those in Saudi Arabia, have shown themselves to be unhappy with the development of investment banking-type business by commercial banks in their countries.

Of course, some Arab banks, such as Paris-based Banque Arabe et Internationale d'Investissement, have been handling other people's money for years. BAII has been in business since the early 1970s and has some $3bn to $4bn in funds under management. Last year, prior to Big Bang, it took over Sheppards and Chase, a medium-sized London stockbroker, but is not likely to make a similar acquisition during the deregulation of the French market.

Some Arab banks report that Arab investors are more willing these days to let Arab firms handle their investments, and say the funds they have under management have increased in the last year. However, with the economic difficulties in the Middle East making investors more concerned than ever with returns on capital, it is a highly competitive market and dependent on continued good results.

Nevertheless, banks are still moving in. Paris-based Union de Banques Arabes et Francaises (UBAF), for example, eschewed investment banking business for years and concentrated on trade finance. Now, under the leadership of a former head of the Egyptian central bank, Mr Ali Negm, it has changed tack, aiming to develop its corporate banking relationships and to use the deregulation in France to expand into other investment banking areas.

The problem with investment banking, particularly for those banks based in the Arab world, is that it is specialised and often highly technical. If banks want to build up a capability quickly, they have little option but to import the skills, usually at a high price.

The development of Arab-managed and manned investment banks in the Middle East can only be assured over a longer period, by allowing time for human resources and the necessary information systems to develop. In a region which has seen so much change in two decades, this may be the hardest lesson of all for bankers to grasp.

Stephen Fidler

Arab banks in international markets

Services and funds the new wave

IN THE last 12 months the international Arab banks - those institutions that are either incorporated outside the Arab world, or are based in the Gulf but do much of their business abroad - have become clearer about the work they will be doing in future.

A reappraisal was forced on them after 1983 by the recession in the Gulf, which reduced their opportunities for middle eastern trade and construction finance, and by the decline in syndicated lending, which had previously given them easy international business.

In 1983 Arab banks were lead managers in more than 11 per cent of syndicated Euroloans, and about half of the money they dealt with went to Arab borrowers. Since then they have been lead managers for only 5 per cent of syndicated Euroloans, in a market in which there are few Arab borrowers and much reduced interest elsewhere.

In the banks' internal debates on how they might replace their lost business, there has been much talk of merchant banking - the provision of sophisticated services for corporate and private clients in the Arabian peninsula.

To some extent the banks have managed to do this. But it is work that demands considerable expertise, which they cannot easily develop; and their Arabian clients, who are mostly conservative, secretive and not very well informed, are not natural customers for investment banking services. Saudi and Gulf businessmen traditionally dislike opening their books to outsiders and are reluctant to pay for advice.

One result of the change in their fortunes, inevitably, is that some banks are being taken over and may eventually be totally absorbed into competitors.

Several years ago the National Bank of Kuwait bought a majority of the FRAB consortium bank in Paris, which it has since run virtually as its French branch. More recently the Lebanese/Saudi contractor, Rafiq Hariri, has bought Banque de la Mediterranee; and the Bin Mahfouz family, which has a majority of National Commercial, the biggest Saudi bank, has increased its share in the Bank of Credit and Commerce International to 30 per cent. It has bought out the stake of the troubled Saudi businessman, Ghaith Pharaon.

GCC commercial banks (US$m)

	Period End	S. Arabia	Kuwait	U.A.E.	Qatar	Oman	Bahrain	G.C.C.
Total assets	1983	38,126	34,289	21,710	3,140	2,914	3,266	103,446
	1984	41,631	32,386	24,963	3,680	3,528	3,531	109,699
	1985	42,274	30,112	26,650	4,073	3,753	3,874	110,735
	1986	45,019	31,669	27,556	4,616	3,321	4,128	116,509
Claims on private sector	1983	16,216	18,308	9,116	1,664	1,412	1,677	46,390
	1984	16,916	17,046	9,094	1,494	1,659	1,936	48,145
	1985	16,502	16,858	9,160	1,771	1,997	1,802	48,087
	1986	16,022	17,664	9,763	2,206	1,781	1,806	49,243
Capital and reserves	1983	2,733	2,279	3,155	235	203	366	8,972
	1984	3,184	2,762	3,276	288	248	346	10,124
	1985	3,535	2,816	3,891	310	278	446	11,297
	1986	3,550	3,047	3,411	389	274	672	11,343

Notes:
(1) Bahrain Offshore Bank Units data are not included.
(2) For UAE, latest figures correspond to September 1986.
Source: IMF.

More dramatically, one institution, the European Arab Bank, a multinational Arab consortium founded in the early 1970s, is liquidating itself. Its shareholders, who make up a long list of Arab banks and governments decided that the bank had served the purpose for which it was founded - to improve the Arab world's links with European markets - and that, now there were many other institutions performing the same role, there was no point in the bank's continuing.

In the same general vein, four Bahraini banks have decided to leave the commercial banking business and turn themselves virtually into investment companies.

Kuwait Asia, United Gulf, Bahrain International and the Bahrain Middle East Bank were established too late to have built longstanding relationships with a large number of customers, and they certainly do not have substantial deposit bases; so they have been running down their loan portfolios and concentrating on investing the considerable capital funds they were given by their shareholders. All of the banks are developing investment management services on behalf of clients; they are less interested in corporate finance.

Those international Arab banks that are not visibly shrinking their business in some respects, are specialising more. The big wave of 1987, as a banker in London put it recently, has been investment management. A number of banks have launched mutual funds, or have vigorously sold funds that were launched in 1986. In most cases both the management and investment of the funds are done by non-Arab institutions in London, but the funds are Arabised by being given the name of the bank that sells them.

For richer customers, the banks are marketing private portfolio management services. To what extent this work and the fund sales business will be made more difficult by the global stock market decline is not yet known. Until the last few years the Arabs were wary of equities, and it may be that the crash will confirm them in their old prejudice.

In a more hesitant fashion, there has been a trend in 1987 towards capital markets products - in effect, ways in which the banks' traditional deposit and loan business can be securitised. This business requires considerable expertise, and the pattern has been one of banks making up their minds individually whether they have the ability to make a success of it.

A few banks - mostly institutions that are incorporated in Britain or France and which do not have a large Arab client base - have been trying to break into corporate lending in the countries in which they are based.

Al Saudi Banque, which is based in Paris and has a branch in London, says it has not found this business easy but has still managed to get a reasonable spread of clients in both centres. It sells on price and speed of service, and has been helped by deregulation and, in Britain, by the industrial upheavals of the early 1980s, which it says have made customers more receptive to new names.

Another bank that has succeeded in breaking into the British customer market - on a substantially bigger scale than Al Saudi Banque - has been the United Bank of Kuwait, which was established in the 1960s to act as a treasury operation for the Kuwait-based banks and investment companies. One of UBK's specialities has been the provision of mortgages for the richer type of house buyer.

Al Saudi Banque and UBK are both exceptional. Most other banks that have tried to develop British or European customer bases have not succeeded. In cases where the banks concerned have been branches of Arab-based parents, the managers have often found that, for all the lip-service paid to the idea by their head offices, the transactions they have organised have not been approved, except where they have been credits of the most straightforward type.

What has been striking in the last year has been not only the clearer picture that has emerged of which banks are aiming for which niches, but the way in which some Arabian peninsula-based banks have been greatly expanding their London operations, to the extent of transferring the parts of the their businesses that they used to conduct from home.

Banks that established a range of foreign branches for representative offices in the early 1980s have now been through a market cycle, and are deciding which they should close and which expand. Most of the expansions are taking place in London, where National Commercial, Riyad, Saudi American Bank, Gulf International, Arab Banking Corporation, National Bank of Kuwait and the National Bank of Abu Dhabi now have a really substantial presence.

The most ambitious and sophisticated of these banks have their London branches doing all or most of their business in portfolio management (where they have that capability), treasury and capital markets. The London branches also provide corporate finance back-up for the head offices.

The expansion of these branches has come about because the banks feel that they do not really understand the markets when they have to deal with them from the Gulf or Saudi Arabia. In effect, the banks are no longer thinking of their London branches as outposts in a foreign country in which they do a lot of business, but as the centre of a large part of their operations.

Michael Field

Islamic banking

Partners of the client

ISLAMIC BANKERS feel they have finally come of age, and have established their credentials as a viable alternative to traditional banking. They point to the sector's growth over the past decade, and are confident that their clout within the world banking community will steadily increase.

Apart from Iran and Pakistan, which have instituted Islamic banking on a national level, the 90-odd Islamic banks now operating compete in countries dominated by traditional banking. To this extent, their development has been shaped by the need to match traditional banks' performance while conforming to religious strictures on investment alternatives and functions.

In the main, they have profited by concentrating on short-term trade finance and gold-bottomed investments, in the literal and figurative sense of the word. Given that their depositors are shareholders in the bank's activities, there is a strong pressure to ensure that the return on investments are comparable with prevailing interest rates.

It is only in Iran and Pakistan, where no alternative exists, that Islamic banking services have extended to cover the full range, in the same depth, as traditional banks. The experiment has proved a success, for both banks and the economy, though the Government of Pakistan still issues interest-based treasury bills.

Grindlays Bank launched a *Modaraba* (trust financing) fund in Pakistan this June, attracting more than $58m in subscriptions, two-thirds of which were from overseas Pakistanis. The bank had offered $4.6m of its $5.78m to the public, and attributed its success to the Islamic nature of the issue, the fact that funds would be locally invested, and Grindlays' name and local reputation. The bank received much government support for the issue, which took two years to arrange. A second issue is planned and other banks are looking into similar schemes.

Whether the regionalisation and improvement of interbank facilities would improve individual Islamic banks' willingness to invest more adventurously outside these two countries remains to be seen. There is a general appreciation of the need to enhance interbank co-operation, reflected in the call, at a recent seminar in Pakistan, by the International Association of Islamic Banks, for the establishment of an Islamic common market. However it is generally felt that the sector will not see significant development of its profile unless and until a major capital generator like Saudi Arabia shifts its banks to totally Islamic principles.

While Saudi Arabia fights shy of a total shift, its Islamic banks dominate the movement: the Islamic Development Bank, Dar al-Mal al-Islami, and the al-Baraka group. In June Al-Rajhi Company for Currency Exchange and Commerce (ARCCEC), Saudi Arabia's largest money changer, floated shares in its new Islamic bank, the al-Rajhi Bank, capitalised at SR750m ($200 m). Like other Islamic banks, Al-Rajhi is expected to concentrate on short-term trade financing, building on the Islamic trade financing business established by ARCCEC.

Dar al-Mal al-Islami saw a 23 per cent increase in deposits to $1.7bn in 1986, and a 58 per cent increase in profits to $11.2m. The contingency reserve was increased by $2.8m and now stands at $4.8m, but project financing has been pared down $20m to $170m. It is planned to announce a dividend to depositors for the third year in a row at the annual meeting next month. The bank, which now operates in 16 countries, is concentrating on collecting overdue payments from projects, with "some" success. More emphasis is being placed on trade financing, with the revival of its International Islamic Trading Company.

The Islamic Development Bank announced plans this spring to transform its multilateral aid operations to more commercially oriented investments. Problems with investment management have led to a sharp cutback in IDB's equity financing.

IDB financing operations declined 20 per cent in the fiscal year ending September 4 1986, to $840m. The bank experienced problems in controlling investment performance in projects in which it traditionally took only 10-20 per cent stakes, a reflection of IDB's past efforts to invest as broadly as possible within the Islamic region.

These were badly hit by the downturn in the regional economy. Provisions were increased 30 per cent to cover these losses, and tighter selection, assessment and monitoring procedures introduced. IDB has signed a trade portfolio agreement with 20 Islamic banks to increase its trade financing operations.

Al-Baraka Islamic Investment Bank has announced that it will issue a new Islamic financial product, non-voting shares in a company set up specially for the purpose, al-Tawfeek Company for Islamic Investment Funds. It hopes this will spur development of a secondary market in Islamic instruments, which the sector lacks. New issues are planned for four other investment funds.

Al-Baraka in London does not trade as an Islamic bank, but observes Sharia principles in its activities. In April the bank opened a branch in a mosque building in east London, and has seen a substantial expansion of business, with the balance sheet expected to show a 40-45 per cent improvement by the end of the year. It plans to increase its capitalisation and, depending on the success of the east London branch, is considering expansion to reach the Islamic community (*probably about 300,000 families*) in the UK, a move enjoying the strong support of the bank's chairman.

Kuwait Finance House is still busy with the Government's debt settlement programme; and, though it was not as badly hit by the Suq al-Manakh crash as some Kuwaiti banks, its real estate assets have seen a sharp decline. It is trying to add value to these via a new share bond issue, enabling customers to take part shares in development projects.

The bank now has 150,000 depositors, with 45 per cent of Kuwaiti bank savings and 15 per cent of deposits. KFH is exploring longer term financing deals for reinvestment, and is increasing its retailing and international services in trade, foreign exchange and investment. The bank is hosting a meeting of Islamic bank investment managers to discuss increasing investment co-ordination.

In Islamic banking the bank is a partner of the client, sharing profits and losses. Debtors who lose money through no fault of their own are more protected than in traditional banking, not least because there is no accrual of interest on overdue loans. Both Iran and Pakistan require banks to set aside a small percentage of assets to fund small scale loans to needy or marginal clients where the bank will take no share in any resulting profits.

In the majority of cases, however, the profitability of clients or enterprises seeking bank funds is, if anything, a more important consideration in Islamic than traditional banking. Bank profits depend in a more direct way on the performance of enterprises in which they take equity participation, which is one factor accounting for their strong preference for short-term trade financing. Islamic banks *outside* Pakistan and Iran are faced increasingly with the problem of finding attractive enough assets to invest the funds at their *disposal*, and, for the moment, trade finance is the route for all but a small portion of these funds.

Islamic bankers differ as to how they see the development of their sector. A strong segment argue that their economic performance in a global banking scene, where interest-based loans have proved an inadequate and (for traditional banks) risky means of financing development, will eventually secure their dominance.

This scenario is rejected by other analysts, who see Islamic banks operating in tandem with their traditional competitors. They point to the impossibility of transforming the world banking scene, despite the problems international banking is facing with sovereign debt and the increasing difficulty met by the developing world in raising money on commercial markets.

Joan Wucher King

A glossary of some main Islamic banking terms

Ijara/Tajir (renting): Equipment is bought by a bank or insitution which then rents it to a client for a set period and agreed sum.

Ijara wa Iktina/Bay al-Muajjal (hire purchase): The rental of equipment is supplemented with lump sum payments or capital payments into an investment account, whose accumulated capital and profits permit the client to buy the goods. Both *Ijara* and *Ijara wa Iktina* can be done on a short, medium or long-term basis.

Mudaraba (trust financing): A bank or institution provides project financing and the borrower supplies managerial skills. Profits are shared, but losses are borne only by the institution. The term is also applied to investment trusts, who either become the owners or bankrollers of enterprises run by their original management. Shares in the trust are termed *Suruk*.

Mudaraba al-Takaful (public solidarity trusts): A form of Islamic insurance. The trust funds are managed as an investment company, and assume indemnity payments to participating members if an agreed risk occurs to the holder of a solidarity certificate. In practice, these trusts operate akin to North American mutual assurance companies, with the understanding that the trust does not retain any of the profits from its investments, which are distributed to participating members.

Murabaha (trade financing): Bank or institution buys raw materials and/or equipment and sells them to a client at an agreed mark up within an agreed period, either in instalments or in a lump sum. The mark-up reflects the bank's risk in holding the goods for a set period. An alternative, *Bai Salam/Salaf*, entails the bank purchasing the goods on a post delivery basis, paying the set costs immediately but delivering them to client at a later period set in advance.

Musharaka (capital participation): Islamic bank or financial institution buys temporary equity participation in a project and/or provides working capital. The project must be commercially viable, and profits or losses are shared between bank and enterprise according to proportion agreed in advance.

Muzara'ah (Iran, Pakistan): The bank turns over land to a cultivator or agent in exchange for a specified share of the harvest. A similar operation applies to orchards or gardens, termed *Musaqat*.

Qard al-Hasanah: An interest free loan extended for short periods, usually to needy people for enterprises in which the bank will not take a profit share.

Riba (interest): Refers to the money paid by borrowers, along with the loan principle, as a condition for securing a loan from a bank or lender. *Riba* is classed as "unjust" by the Koran, Islam's holy book, and later scholars interpreted this as a prohibition on interest. In practice, Islamic bankers translate this prohibition as not making money on money.

J.W.K

(Terms are drawn from the World Bank study, Islamic Banking, *by Zubair Iqbal and Abbas Mirakhor)*

Saudi Arabia is tackling borrowers who find religion convenient

Defaulters now risk sanctions

PROFITS ARE down, but hopes are up in Saudi Arabia's banking sector. Most of the hopes are centred on the new Banking Disputes Committee established by the Saudi Arabian Monetary Agency (Sama).

The three-man panel consists of Deputy Minister of Commerce for Technical Affairs Dr Muhammed Hassan al-Jabr, a lawyer; Dr Ali al-Johany, a petroleum expert, former dean of King Fahad University of Petroleum and Minerals; and Dr Abdul Aziz al-Guweis, chairman and managing director of Saudi Consolidated Electric Co (Sceco,) of the central region.

The committee was established by a March decree, to transfer some 500 pending loan dispute cases from the kingdom's commercial courts, because banks had been losing all court cases when they attempt to recover bad loans.

Saudi Arabia functions under Islamic "Sharia" law, which forbids the taking or receiving of interest. The Sharia courts have consistently ruled against the banks in these matters. Bank loan officers are particularly chagrined by debtors who have the assets to pay off a loan, but "find religion" and avoid doing so. Banking in the kingdom was suffering from a crisis of confidence, because loans were proving uncollectable.

During the oil boom, from the mid-1970s to the early 1980s, repayment of loans did not seem a problem. Profits were so high that banks refused to consider the fact that there was no legal framework for handling loan disputes. Once the economy began declining, due to lower oil revenues, difficulties with loan payment surfaced and aggravated the downturn.

The Banking Disputes Committee was established to circumvent, as far as possible, the law, and was permitted to persuade businessmen to pay back bad loans. This includes extraordinary powers to prevent bad debtors leaving the country, freeze their bank accounts, attach their assets, and request government agencies not to do further business with them.

In a country where most contracts flow from the government, the last is a heavy threat. But this does not mean the committee will supersede Sharia law. One impediment to an appeal to Sharia law, however, is the stipulation that any appeals against the committee's decisions must be taken to the Royal court. This alone should be enough to discourage further appeals.

Refusal to comply with a committee decision will ultimately finish a businessman's future in the kingdom, though one chief banker said that nothing, really, could prevent a debtor appealing to a Sharia court, which is the law of the land.

One category that will be able to avoid the sanctions of the committee will be princes, many of whom have extensive business interests.

The committee has already given its first 10 or so decisions. The first went against a Saudi businessman who borrowed money from Albank Alsaudi Alhollandi, the Algemene Bank Nederland joint venture, and then simply declined to pay it back. He has reportedly agreed to pay back the loan. There may now be as many as 2,000 cases waiting for settlement.

The free fall of Saudi bank profitability may have ended, but profits are still declining. Arab National Bank, 40 per cent-owned by Jordan's Arab Bank, surprised the Saudi banking community by recording an 11.5 per cent increase in net income after provisions and depreciation. This represents a phenomenal departure from the experience of most of the other banks. Profits rose to SR128.6m for the first three quarters of 1987.

Other banks' profits, and percentage decreases or increases from the previous year include:

Saudi Investment Bank, the Chase Manhattan joint venture (384.1 per cent increase in profits to SR6.182m, due to collection of several large bad debts); Bank Al-Jazira, 35 per cent owned by National Bank of Pakistan (pre-provision profits fell 77.2 per cent to SR2.512m); Saudi British Bank (profits before provisions fell 51.2 per cent to SR19.8m); Albank AlSaudi AFransi, 40 per cent owned by Banque Indosuez (profits fell 34.6 per cent to SR45.484m); Saudi American Bank (Samba), the Citicorp joint venture (profits fell 36.4 per cent to SR60m).

Results not yet in, include that of Saudi Cairo Bank, almost a year behind on reporting after being shaken by its second major scandal in less than five years.

Saudi banks are moving forward with plans to introduce automated teller machines (ATMs) following Sama's decision to establish a linked ATM system for all the banks. The first off-site ATMs, at airports, were installed this year by the largest bank, National Commercial Bank (NCB), and Samba.

Saudi French is accelerating its programme to install machines, and may have them operating by early 1988. Even the young United Saudi Commercial Bank (USCB) is considering setting up an ATM network.

Other recent events in Saudi banking include the purchase of 10 per cent of Saib's shares by National Industrialization Company (NIC). NIC is buying a quarter of Chase's 20 per cent share in Saib, and all of Commerzbank's 5 per cent share. This represents the first up-front divestitures by important foreign banking partners in Saudi banks. Banque du Liban et d'Outre Mer had earlier sold its 10 per cent share in USCB.

Rumors about Citicorp's intention to sell half its 40 per cent share in Samba have quieted down, since Citicorp chairman John Reed visited the kingdom in November and pledged to increase investments if necessary.

The kingdom's second-largest bank, Riyadh Bank, has moved to Riyadh from its headquarters in Jeddah. The bank would rent the old temporary headquarters of the Ministry of Finance while planning to build a "landmark" building, said its managing director Ahmed Abdul Latif.

The other big event in Saudi banking was the arrival of a new bank, the Al-Rajhi Banking and Investment Corporation (Arbic). This is not really a new company, but the reincarnation of the kingdom's largest money exchanger, the Al-Rajhi Company for Currency Exchange and Commerce. The Council of Ministers gave approval to the firm to float shares as a publicly-held bank, vaulting it into third place behind Riyadh Bank.

It will have shareholders' funds of over $200m and the largest branch network of any bank in the kingdom - 226 branches, compared with NCB's 183.

Finn Barre

Saudi money exchangers

Why Al-Rajhi is converting

MONEY EXCHANGERS are curious creatures in Saudi Arabia, being half-bank worth billions of dollars, and half throwback to the days when canny merchants exchanged foreign currency or precious metals.

The largest of these, the Al-Rajhi Company for Currency Exchange and Commerce, is now crossing the barrier and becoming a full-fledged bank, ranking number 39 in Euromoney's ranking of the top 100 Arab banks, with shareholders' funds of over $200m. The transformation of the kingdom's premier money exchanger highlights the problems and issues affecting the kingdom's vibrant money exchanging sector.

To understand the issues facing the kingdom's money exchangers, it is necessary to understand the niche they hold in the financial sector.

Money exchangers are very strong in retail banking, and have always held an advantage over the commercial banks in serving the common man in Saudi Arabia. In most countries, money exchangers benefit from lower costs and less regulation than banks. But in Saudi Arabia the exchangers also benefit from religious sanction.

Although banks try to disguise interest with terms such as "commissions", the average Saudi is not fooled. Both the giving and taking of interest are banned by the Koran, according to the strict interpretations of the Wahhabi "Unitarian" sect of Islam.

Thus, in Islamic Saudi Arabia, the money exchangers benefited from the trust of the population. Further, since the money exchangers were often from local families, the average Saudi felt more comfortable dealing with them than the foreigner-filled banks.

The money exchangers were also open long after the banks during evening shopping hours, when the lower class expatriates were finally finished with their work. This meant that they gained most of the foreign remittance business. Some of the smaller exchangers began sending men to labour camps, to handle exchange on a "house call" basis. Bankers estimate that 80 per cent of the remittances sent home by some 4 million expatriate workers are handled by the money exchangers.

The natural religious, cost and convenience advantages led to the gradual accretion of banking powers by the kingdom's money exchangers. Before long, most were taking deposits, and some were granting limited overdraft facilities to preferred customers.

Before long, the Al-Rajhi firm emerged the dominant one. It has 226 branches, compared with 183 branches of the kingdom's largest bank, National Commercial Bank (NCB). In the country's last boom year, ending April 1983, Al-Rajhi reported that income from foreign exchange operations totalled SR1.12bn. Profits that year were SR339m. That same year, Riyadh Bank, the kingdom's second largest bank, reported a profit of SR603m.

The other money exchangers make good profits as well, and include five large, and over 200 small, money exchangers. The big five are: Abdul Aziz Kaaki; Ahmad Hamad Algosaibi & Bros; and two unrelated Al-Rajhi companies, Al-Rajhi Trading Establishment, and Al-Rajhi Commercial Group for Exchange. Al-Subaie is another large money exchanger. While Algosaibi and Al-Rajhi Commercial Group are heavily computerised, others are just small holes in the wall. Even the big Al-Rajhi is very low-tech, and works mostly off of telex and telephone.

But as time has passed, the exchangers have built up international financial links with correspondent banks, and in some cases, foreign branch offices. Both the Algosaibi and Al-Rajhi Commercial Group for Exchange say they have filed applications with the Saudi Arabian Monetary Agency (Sama) to become banks.

This gradual evolution and accumulation of public trust was damaged when, in 1981, the Dammam-based Abdullah Saleh Al-Rajhi company, also unrelated to the other Al-Rajhi companies, collapsed. Its owner had speculated in precious metals. The mess, which is still being sorted out, led the Sama to impose reporting standards, and ban the taking of deposits.

Under the Sama ruling, the big Al-Rajhi was slated to convert into a bank by 1984. It was only this year, three years late, that the Council of Ministers finally granted permission for the huge money exchanger to convert into the new Al-Rajhi Banking and Investment Corporation (Arbic).

The reason why the transformation of Al-Rajhi into Arbic is taking so long is simple: the owners prefer the money exchange business. Although the numbers of expatriates and the amounts of remittances are falling, money exchangers are still making money.

The traditional Nejdi family of Al-Rajhis is not keen on the transformation. The four brothers who own the firm - Saleh Abdul Aziz al-Rajhi, Abdullah al-Abdul Aziz al-Rajhi, Sulaiman al-Abdul Aziz al-Rajhi, and Mohammed Al Abdul Aziz al-Rajhi - would prefer to retain family ownership of the firm. Under the stock flotation, 50 per cent will go to the Al-Rajhis, 2 per cent to employees, 5 per cent to the founders, and 43 per cent to the public.

But little appears to be gained by conversion to a bank. After all, Al-Rajhi was already taking deposits, and had been admitted to the kingdom's cheque clearing system. The only power Al-Rajhi did not have was authority to make loans. But although Al-Rajhi is slated to become Arbic, the flotation has yet to take place.

Finn Barre

Stock exchanges

In search of confidence

KUWAIT IN 1982 was "like one big casino", recalls one financial analyst. Millions of dinars' worth of shares changed hands daily, between everyone from taxi drivers to cabinet ministers.

The collapse that followed turned it into a financial graveyard, in which were interred companies and speculators who bid too broadly on ephemeral margins. The resultant debt is being restructured via the Government's settlement programme, but its overhang has affected share activity throughout the GCC.

Kuwait's gleaming new stock exchange is an object of considerable pride for its management, symbolic of the determination to restore investor confidence.

Trading is done in person, by hand; each bid is registered and sent on to floormen who enter it manually on the board. Transactions are transmitted to the computer room by telefacsimile, for auditing before finalisation. Shares are permitted to move within a 10-point spread each day, with selling allowed 72 hours after purchase.

Tight company reporting requirements, introduced after the 1982 collapse, are now considered successful enough to enable the easing of some operating restrictions. The exchange plans to allow clearing houses to set up customer and broker accounts, which are now on a personal and cash basis, early next year, and to permit buying and selling on the same day.

The Government has been trying to boost investor confidence, and the large number of shares it purchased in the aftermath of the collapse is being unloaded in digestible chunks. Unofficially, it would like to see growth at about 10 per cent a year, with improved company management and a less speculative tendency among individual investors.

The GCC decision in April, opening share ownership in GCC-based companies to GCC nationals, may, it is hoped, create an opportunity for the Kuwait exchange to become a Gulf-based equities market. Eight non-Kuwaiti companies now trade there. But the absence of full commercial law and detailed company accounting requirements in other Gulf states needs alteration if non-Kuwaiti companies are to fulfil the exchange's reporting criteria.

Kuwaiti exchange authorities would like to see a GCC supervisory body, ensuring company compliance with standardised reporting procedures, though past attempts to establish such bodies do not offer much hope.

The Exchange's director, Hisham al-Otaibi, is Chairman of the Arab Stock Exchange Union, which seeks better co-ordination between Arab bourses, though a closer trading relationship would face the same problems as an inter-GCC exchange - lack of comparable legal and commercial frameworks.

The Kuwait exchange sees a future international role as a time-bridge between the Tokyo-London markets. But the process of deregulation and globalisation is likely to take some time yet.

Other Gulf states remain reluctant to invest or list securities on the Kuwait market, having lost a packet in the last crash. They prefer to control their own share market, however limited, and most of their companies' articles of incorporation restrict non-national share ownership. Regional uncertainties about the domestic economy and the war have further dampened confidence.

Abu Dhabi's situation typifies these problems. There has been talk of establishing a stock exchange for five years. Enabling legislation was drafted in 1983, and 22 banks were named as new share issue brokers in 1986. The only evidence of life is the bi-weekly quotation of shares by the National Bank of Abu Dhabi in the local press. There are about 30 licensed brokers dealing in 40 UAE companies, with most share trading done in the small emirate of Umm al-Qaiwan.

Bankers and analysts feel any development of this slender market requires proper commercial legislation and better company reporting before large scale or long-term investment becomes an attractive. At the moment, the market, like the economy, is somnolent, and investor confidence in equities weak.

Oman has announced plans to open an exchange later this year, limited to a small number of local shares. Saudi Arabia's one-month experiment with share trading ended in June amid speculation that the authorities were still dissatisfied with new regulatory procedures, introduced to replace more stringent 1983 regulations which effectively strangulated share trading and brought about an 80 per cent decrease in volume.

The main problem in attracting investors to Gulf equities is the depressed state of the region's economy. Investment opportunities are limited, and there is little inducement to swap overseas investments for local ones. Current market players in Kuwait are the minority who weathered the Souq al Manakh crisis with their confidence, or perhaps their sense of adventure, intact. The majority of potential investors have more painful memories of the crash, and are wary of the investment value of local equities.

Before the recent plunge in the world stock markets, Arab bankers were noting a much higher client interest in foreign equities. Whether this will survive in the short term, following the recent price collapse, is questionable. Gulf investors are traditional and heavily represented in physical investments. Uncertainty may cause a reversion to their preferred vehicles of property, gold and commodities.

Joan Wucher King

ARAB BANKING 4

Kuwait

Settling in for the long run

"IT WILL be nice to get back to banking" is a constant refrain of Kuwaiti bankers, as most outstanding debts from the 1982 Souq al-Manakh crash are expected to be fully rescheduled under the Government's Difficult Credit Facilities Settlement Programme by the end of December.

Ninety-one per cent of debtors, holding 86 per cent of banks' outstanding debt, had completed the second stage of the settlement process by last May, with 663 proposals finalised totalling KD829m ($2.9m).

Settlement has involved some extremely complex arrangements, to satisfy both creditors and debtors, and Kuwaiti banks have kept a close eye on the programme's overall progress. Clearance of the debt overhang will enable banks to gear up for the third, post-oil shock phase of their development.

This year banks have generally seen good improvement over 1986 performance. Total footings were up 10 per cent to KD9.7bn ($34bn) in the first quarter of 1987, with capital and reserves reaching KD900m, up 6.4 per cent on a yearly basis.

In March the central bank cut the 10 per cent interest rate ceiling to a 7.5 per cent short-term KD loan cap, and it wants further drops in the interest rate structure to reflate the economy and reduce debtor burden. Banks have been asked to become more active where it makes financial sense to do so, even with companies under settlement, provided the financial picture, cash flow, and loan purpose are sound.

The central bank Governor, Shaikh Salem al-Sabah, has been in office just over a year. He is seen as more active and powerfully connected than his predecessor, and has also profited from a different working environment, with no National Assembly to delay implementation of his decisions.

While the bank's expansive attitude is well regarded, last April's dinar devaluation against the dollar is viewed as a hurried response to importers' complaints about the KD's decline against the Deutsche Mark and yen. Foreign exchange reserves fell 12.1 per cent in April/May, as currency speculation soared, leading to a quiet reversal of the devaluation this summer.

This year's KD bond issues for Finland and the World Bank ended a five-year central bank moratorium. Both were lead managed by the National Bank of Kuwait (NBK).

Local banks have been looking aggressively for more top-rated borrowers, offering 7½ per cent in a freely convertible currency. However, a $1.4bn Kuwaiti public debt bond issue announced by the central bank has led to a halt, for the moment, in any further foreign bond issues.

The Government was understandably eager to ensure the success of its own bond issue, but the decision has been seen as harming Kuwait's potential as a bond issuing market and reflecting more serious central bank concern with currency outflows associated with foreign bond issues.

Issue terms are being announced this month, but will be limited to Kuwaiti financial institutions and residents. No lead manager has yet been named. The issue is seen as a way of mopping up some local liquidity, and of building investor understanding of, and confidence in, debt instruments.

Bankers think that local and regional pressures will continue to exert constraints on central bank policy and investment next year. The Kuwaiti economy still has a very limited capacity to absorb investment funds: the choice is between local business, or low-earning bank deposits. Credit facilities in the year ending March 31 increased barely 1.1 per cent, to KD4.4bn ($15.6bn), though trade finance and construction both registered increases of 3.7 per cent.

NBK has come through the debt crisis better than most. In 1986 profits were up 10 per cent for the second year in a row, with a 20 per cent cash dividend in addition to 10 per cent bonus shares. NBK analysts had predicted the Manakh crash the year before, securing a late decision to diversify sectorally and geographically.

Its consequent lower exposure to Manakh debt has left it freer of the constraints imposed on other banks, with heavier reliance on government assistance. Overseas offices were established or upgraded to develop foreign investment.

The bank has 50 domestic and four overseas branches, with a specialised investment company and a sophisticated economic research department. NBK, along with other local banks, is now seeking to enhance its investment services.

NBK has introduced investment instruments aimed at mid-level Kuwaitis, with a $10,000 minimum investment; and it received full Bank of England recognition in January in preparation for a major drive to capture a larger share of the overseas investment market.

United Bank of Kuwait in London is opening a new branch this month, part of an expansive drive to enlarge its investment business and attract Kuwaiti capital outflows looking for overseas outlets.

Kuwait and the Middle East Financial Investment Company (KMEFIC), a subsidiary of the Bank of Kuwait and the Middle East (BKME), offers foreign real estate and venture capital investments. Initially aimed at institutions, KMEFIC is now going after individual investors. A mutual fund will be offered at the end of this year as a way of expanding its customer base. Ninety-five per cent of KMEFIC capital is in investments with five-six year maturities, mainly in the US. A US subsidiary will shortly be established.

BKME, now looking ahead to its new five-year plan, is optimistic about potential regional investments once the Gulf economy picks up. Capitalisation increased 25 per cent this year, with the Government holding a 70 per cent direct and indirect share.

The bank points to the doubling of share prices this year as one evidence of returning confidence, with investors becoming more sophisticated and less speculative. BKME, which favours regional investment, is eager to expand its portfolio in what it sees as a potentially huge market, able to absorb more commercial flows from the Gulf.

Although some Kuwaiti banks are planning to expand and enhance their retail services, government analysts feel that retail banking is, in the local market, insufficiently profitable without a big increase in investment and merchant banking services. The collapse of global equities and the troubled foreign exchanges will inevitably complicate the banks' search for secure overseas investments for capital under their management.

Many factors contributed to Kuwait's economic downturn - the collapse of the Iran-Iraq re-export market, the Souq al Manakh, and oil revenues. Kuwait was shielded somewhat from the crude oil price downturn by its sizeable refined product exports and marketing network abroad. Opinions about the war's effect on capital outflows vary, but most bankers agree that these reflect the alterations in its temperature.

There are now several indications that the economy has bottomed out: the increase in oil prices and production, investment income, construction and service activity; and a decline in interest rates, coupled with zero inflation. Local bankers argue that the overall picture is sound, and feel the war risk should not be over-emphasised. While the economy can survive on oil revenues as low as $12 a barrel, any real take-off will probably be delayed until the regional situation clarifies.

Joan Wucher King

Kuwait banks' dividend distribution for 1986

	Cash % 85	Cash % 86	Cash KDmn 85	Cash KDmn 86	Bonus Shares % 85	Bonus Shares % 86	Bonus Shares KDmn 85	Bonus Shares KDmn 86	Rights Issues % 85	Rights Issues % 86	Rights Issues KDmn 85	Rights Issues KDmn 86
National Bank of Kuwait	20	20	11.6	12.6	10	10	5.6	6.4	–	–	–	–
Gulf Bank	–	–	–	–	6	9	2.5	3.9	–	25	–	10.9
Commercial Bank of Kuwait	–	–	–	–	5	8	1.8	3.1	–	25	–	9.7
Al Ahli Bank	5	–	1.6	–	7.5	8.5	2.4	12.1	25	–	7.9	–
Bank of Kuwait & The Middle East	–	–	–	–	7	10	1.8	2.7	–	50	–	13.6
Burgan Bank	–	–	–	–	5	8.5	2.6	4.5	–	–	–	–
Kuwait Real Estate Bank	10	7	2.5	1.7	–	5	–	1.2	–	–	–	–
Kuwait Finance House	–	–	–	–	10	12.5	1.9	2.3	–	–	–	–

Source: NBK

Bahrain

Living with the earthquake

NOBODY WAS claiming earlier this year that the offshore banking business in Bahrain was on the verge of expansion, but there were a number of signs to suggest that the long-awaited levelling out of the market had occurred.

There had been a recovery in the all-important oil price, and signs that some of the regional economies were in better balance. Some rescheduling packages emerged for corporate debtors in neighbouring Saudi Arabia, and the Saudi Government had apparently opened the way for successful claims against recalcitrant debtors who had been using the Islamic proscription on usury to avoid compliance with loan agreements they had signed.

Some potential problems among the banks had been successfully dealt with through takeovers and injections of new capital, by general agreement, quietly and skilfully, though usually not without a certain amount of cajoling on the part of the Bahrain Monetary Agency.

There were still many unanswered questions about a number of the offshore banks with headquarters in Bahrain; and the Gulf War still cast a pall over economic activity in the whole region, though things might well have been worse.

Then, they were hit by a shock wave which had its epicentre on the other side of the world - the declaration by Citicorp that it would sharply expand its provisions for possible losses on its lending to countries in the Third World which were rescheduling their debts.

This had an impact on banks worldwide, in two ways. Those which had, by Citicorp's new standard, inadequately provided for their Third World loans were subjected to intense peer pressure to follow the New York bank's lead. Then, because Citicorp's move implied sales of Third World loans in the secondary market, the secondary market price of much of this debt went into a significant downdraught.

Most of the offshore banks in Bahrain were formed toward the end of the oil boom in the late 1970s and early 1980s. Awash with capital and liquidity, many of them set a course to build assets. Short of lending opportunities in the region, they became heavy lenders to the developing countries.

Even some of the stronger banks, such as Arab Banking Corporation, have more than 10 per cent of their assets tied up with these countries. Others, such as Arlabank, a consortium owned by 28 Arab and Latin American institutions, are far more heavily involved. Its direct exposure of $1.1bn at the end of last year was more than four times its net free capital.

Yet the Bahrain Monetary Agency has been reluctant to force banks into provisioning for this debt, since, for some, "doing a Citicorp" would gobble up what remaining capital they had, and possibly more. For some banks, raising new capital would be impossible. From the banks' point of view, there were no tax advantages in taking such a step, since they paid no tax.

One of the solutions under consideration has been the establishment of a special corporation by the banks to take over their Third World loans. The banks would effectively convert their loans to the rescheduling countries into loans to this new company.

In addition, they would kick in cash for the company to buy zero-coupon US Treasury bonds sufficient to repay the equivalent of the principal of the loans in perhaps 20 years' time. Their equity in the company would consist of this cash plus value of their debt, perhaps as valued in the secondary market. In this way, a bank that put into the company $100m of loans to Venezuela, currently valued at more than 50 cents on the dollar, would have a greater share of its equity than one that put in $100m of Peru, valued at less than 10 cents on the dollar.

Many are sceptical about whether this will get off the ground, because of accounting problems and because it depends on the continued meeting of interest payments by the countries involved. It is not clear either what would happen in rescheduling packages which require the lending of new money.

A number of banks have declared their interest in moving into investment banking, yet most newcomers have still to make their mark

But it has the support of a number of leading bankers, including Mr Abdulla Saif, head of both the BMA and Gulf International Bank, which is owned by the seven Gulf Arab governments and is also heavily exposed to rescheduling countries.

Nearer to home, the search for business among the banks continues and does not get easier. The foreign banks have continued to retrench, with Britain's Midland Bank the latest to decide to close its offshore banking unit; and a number of local banks, such as United Gulf Bank, fresh with new Kuwaiti shareholders, have effected their withdrawal from commercial banking altogether. In theory, this should allow more business for those that remain, but it has yet to have a practical effect.

A number of banks have declared their interest in moving into "investment banking", a broad term which covers a large number of activities; yet most of the newcomers are still to make their mark. Too often such plans are not well thought through by bank management.

There is also a growing trend to what is called Bahrainisation, the taking over of expatriate jobs by locals. At some banks, such as GIB where there is an effective hiring freeze, Bahrainisation is as much de facto as deliberate: as foreigners leave, they are not replaced.

While the Bahraini workforce is probably one of the best educated in the Gulf, it is still young, and there are questions over whether many of its members have the background and experience to deliver some of the more sophisticated products that the banks say they want to offer. Yet the importing of these skills is often costly and offers no broad solution either.

There is a feeling among foreign bankers that doing business in Bahrain is not getting any easier. Some have expressed a preference for the more free-wheeling atmosphere in Dubai, where, for some non-Arab banks, there is the added benefit of some active business associated with the booming trade with Iran.

The justice of this sentiment is hard to assess from the outside. Although a one-time resident of Bahrain, this writer was not allowed to visit the country to research this article. The authorities asked him to cancel his visit. No explanation was given, and the article had to be researched outside the country.

While, in view of the region's difficulties, caution on behalf of the Bahrain authorities is understandable, it is difficult to avoid the conclusion that it may be symptomatic of some of the irritants complained of by bankers based on the island.

Stephen Fidler

Bahrain Offshore Banking Units: assets & liabilities (US$m)

Period End	Assets: Loans to non-Banks	Assets: Interbank Funds: Commercial Banks in Bahrain	Assets: Interbank Funds: Other OBUs	Assets: Interbank Funds: Outside Bahrain	Other Assets	Assets = Liab.	Liabilities: Deposits of non-Banks	Liabilities: Interbank Funds: Commercial Banks in Bahrain	Liabilities: Interbank Funds: Other OBUs	Liabilities: Interbank Funds: Outside Bahrain	Other Liab.
1976	1,734	136	510	8,780	54	11,214	598	87	510	4,839	80
1977	3,708	182	2,012	9,303	516	15,761	3,513	128	2,012	9,829	419
1978	6,166	204	2,792	13,409	670	23,441	4,786	209	2,792	14,946	708
1979	6,686	200	4,490	15,271	1,115	27,764	7,009	198	4,490	15,149	918
1980	8,486	204	6,707	19,886	2,176	37,486	8,530	410	6,707	19,927	1,892
1981	11,242	144	8,771	26,225	4,352	50,734	11,988	847	8,771	25,925	3,222
1982	14,316	270	9,847	29,441	5,133	59,007	13,898	885	9,847	30,253	4,314
1983	15,977	384	8,996	32,052	6,332	62,741	14,734	1,881	8,996	32,438	4,694
1984	18,382	310	8,521	32,803	2,686	62,882	14,872	1,161	8,521	33,336	4,802
1985	15,873	270	7,387	30,819	2,456	56,805	13,097	1,479	7,387	29,886	4,958
1986	13,862	232	6,379	32,445	2,762	55,680	13,072	1,581	6,379	29,681	4,967

Source: Bahrain Monetary Agency.

The UAE: Abu Dhabi... the economic downturn has created uncertainty

Clarity needed on interest rates

ABU DHABI'S banks are awaiting a government decision on a long-running imbroglio on interest rates. Confidence in a clear endorsement of compound interest has faded in the face of recent conflicting federal and government rulings. Until this emerges, bankers feel both international confidence, and domestic revival, will be constrained.

The economic downturn which hit Abu Dhabi and the emirates with the collapse in oil prices and slowdown of the domestic economy left its banks with 30 per cent non-performing loans, 90 per cent of which were unsecured. Debtors turned increasingly to court to challenge repayments as being based on "usurious" interest rates, forbidden in Islam.

Abu Dhabi's 1970 civil law established rates of 9 per cent for personal and 12 per cent for commercial loans (rates first set under Ottoman law in the last century), but allowed different rates to be agreed. Subsequent rulings on the interest rate question have not clarified matters, and until this April such cases, save in Dubai, were heard in religious courts.

The Government then ordered interest cases transferred to the civil courts. The federal Government ruled this summer that interest agreed when the loan was signed applied to the point when legal action was taken, affirming the principle of compound interest. Simple interest would be paid, post-settlement, in line with the 9-12 per cent rates.

In September, Abu Dhabi amended a law barring interest from exceeding the principal loan amount in all cases, effectively supporting simple interest rates over compound. While some bankers hope this confusion will shortly be resolved, others see government reluctance to legitimise compound interest. Dubai is felt to be the only emirate eager to see compound interest accepted as UAE policy.

If nothing is resolved, banks will have to withdraw overdraft facilities completely, given the difficulty of determining overdraft principle, and in loan-writing cover costs in front-end commissions that will enable simple interest to be charged.

In future, debtors will be pursued the moment default begins, to prevent interest from accumulating against loan principle. Banks are now informally pooling information on questionable borrowers, to reduce future risk.

One local banker felt that a prime rate established for both deposits and loans, with sufficiently profitable margins, offered a solution to the interest rate imbroglio. The central bank has yet to fix a prime rate, despite rumours this spring that such a move was imminent. Interest rates have been moving up lately as banks have raised deposit rates to attract new customers.

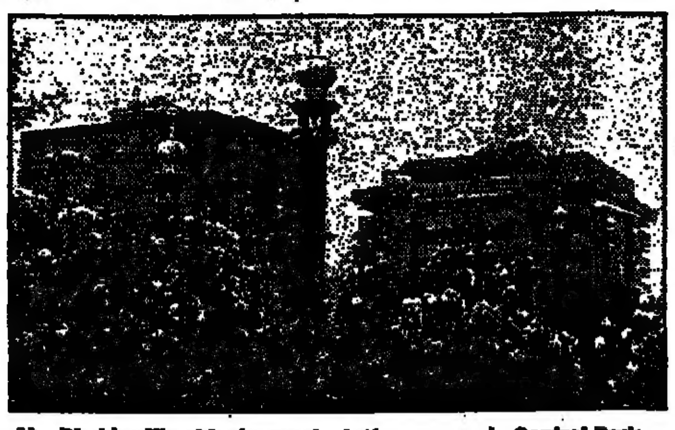
The dirham market itself is not very deep. Abu Dhabi uses Abu Dhabi Interbank Offered Rate (Adibor); Dubai uses Dubai Interbank Offered Rate (Dibor). Some bankers would like to see the London Interbank Offered Rate (Libor) made generally applicable, arguing that the variations in liquidity among the emirates makes setting a UAE prime rate difficult.

The UAE central bank, under its Governor Abdul Malik al-Hamar, has assumed a more active profile in the past year. It has urged banks to make better provisions, to observe its calls for capital adequacy and reserve/loan ratios, to sell real estate acquired as security for non-performing loans.

Bank reporting regulations have been stiffened, capital requirements for exchange dealers have increased, and banks instructed to limit interbank deposits with a single institution to not more than half their capital. Approval must be secured before subscribing to local or foreign companies, to control banking involvement in share flotations.

The bank's inspection teams and its emphasis on professional training are highly rated, though its regulatory efforts have met with a mixed response among bankers. Its power over banks who want to flaunt regulations is felt limited, as is its ability to seriously intervene in the market against the wishes of individual emirates.

While the central bank keeps a close watch on the health of UAE banks, it will not rescue every bank in trouble. The individual emirates are, in some cases, going to have to make their own commitments to local banks in difficulties. Scope exists for amalgamating smaller banks in the northern emirates, though this is likely to be resisted by their shareholders. Within the emirates as a whole, there has been a pronounced move towards cutting staff and rationalising administrative expenditures in a very tight, depressed market.



Abu Dhabi: office blocks overlook the mosque in Central Park

The lack of commercial and corporate law is widely felt - a grave absence for developing the business climate. The UAE Minister of State for Finance and Industry, Ahmad Humaid al-Tayer, acknowleges the need for such legislation, and the UAE Chamber of Commerce has been working on drafts. Government reluctance to firm the terms for bankruptcy, and the variety of company pattern, complicate matters. Plans to extend share trading are particularly affected by the absence of legal frameworks.

The improved performance of banks in Abu Dhabi this year reflects reorganisation, rationalisation and government support. The National Bank of Abu Dhabi enjoyed a 366 per cent increase in profits last year, paying a dividend for the first time in two years.

Abu Dhabi Commercial Bank (ADCB), created from a merger of three banks, reduced losses by 60 per cent in 1986, and has benefited from a $187.75m injection of government capital via new share purchases aimed at easing its difficulties. The bank, under the leadership of Sultan Nasser al-Suwayidi, has carried out extensive operational reorganisation and staffing cuts. Six-month figures for 1987 showed a net profit of DH14.4m ($3.9m), which the bank expects to be repeated in the last half of the year.

The Bank of Credit and Commerce (Emirates) (BCCE) has pushed ahead in retailing. It trades strongly on its services, being the first bank with evening hours and automated teller machines (ATMs) to encourage small depositors. In its experience, these have proved a stable equity base, and the group's 72 overseas branches give added appeal to expatriate workers. The bank has a loan scheme for such workers, secured through direct repayments by their employers from salaries or end-of-contract payments. BCCE, like other local and foreign banks, has been developing its investment services.

The federal Government tightened up last September on the insurance sector, which has been hard hit by the economic downturn. Twenty-four of the 74 companies operating in the UAE ceased trading in the past year, largely through inability to meet new capital requirements. This has directly and indirectly strengthened the position of the Abu Dhabi National Insurance Company, which holds 70 per cent of the local market and is rapidly expanding medical and life assurance services.

Overall, foreign and domestic bankers feel the economy has come through the oil shock, though remaining flat after its 21.5 per cent fall in GDP in 1986. As one local banker said: "It is not dead, just very deeply asleep."

Government borrowing last year was nearly 47 per cent above 1985 levels, and doubled in the first half of 1987, reaching DH12,193m ($3,322). Despite this expansion of domestic credit, there was no corresponding increase in either deposits or private sector lending.

Although banks expect construction and services to pick up in the next two years, size mitigates against Abu Dhabi's ability to absorb its capital surpluses domestically. Abu Dhabi has $20bn in overseas investments, about 28 per cent of bank deposits, almost 70 per cent of which is in dollars. Between 70 and 80 per cent of local funds are invested abroad. Banks' overseas assets and liablities declined by over 26 per cent in the first six months of this year, part of an overall 10 per cent fall in commercial bank assets.

Concern about the possible introduction of an income tax has meant that national banks tend to see less of capital outflows than their foreign competitors, though they are becoming more aggressive about going after the type of investment business foreign banks once dominated.

Of great importance for the future will be the ability of Abu Dhabi banks to secure settlement of outstanding debts held by clients in fairly unassailable positions, which will require the support of both the central bank and a clear interest rate policy.

Of equal importance is the ability or willingness of Abu Dhabi to continue bankrolling the deficits of the poor northern emirates, which in the past have been kept afloat by its subventions. This is as much a political as economic problem, and one essential for the long-term survival of the UAE as a viable entity. As this summer's power struggle in Sharjah showed, and the situation in the Gulf continually emphasises, the emirates sit in a delicate regional balance.

Joan Wacher King

The UAE: Dubai

Tax benefits offshore

IN THE present economic environment, keeping offices open throughout the Gulf area is often a luxury foreign banks can no longer afford. They are increasingly having to choose a single location.

First National Bank of Chicago and Lloyds International are two that have chosen to site their regional offices in Dubai.

The emirate is a pleasant place to live, bankers say, which makes it easier to hire staff. Other reasons given are Dubai's relatively low living costs and high living standards. These are minor factors, compared with the advantage of operating in a commercial environment that comes close to international standards. Red tape is minimal, communications excellent, and the infrastructure good. Most important, the Dubai authorities' attitude to commercial matters is said to be pragmatic and decisive.

Speaking of the emirate's ruler, one local banker said: "Shaikh Rashid never issued a decree which would affect the banking sector without consulting at least a local bank, a British bank and perhaps an American bank as well, to get our reactions. Only when he was absolutely sure of the possible consequences would he act. His sons follow this example."

The vexed question of interest rates provides one instance of this pragmatic approach. Interest rates have caused headaches to banks throughout the Arabian peninsula, but the problem was quietly overcome in Dubai some years ago.

Dubai courts invariably allow the rate of interest which was originally agreed between the parties even if this means that the customer pays compound interest. In other emirates, the question has not been decided, much to the consternation of some banks with long-standing overdraft customers.

Some of the latter have brought claims in courts in Abu Dhabi for repayment of compound interest, arguing that simple interest alone is lawful. A series of apparently contradictory decrees issued this summer has left bankers wondering what the current position is.

More than one Dubai bank has stopped extending overdrafts at its Abu Dhabi branches until the matter is clarified.

Perhaps in order to capitalise on the advantages which it offers banks, Dubai recently issued a decree allowing the licensing of offshore banking units (OBUs), to be sited in the precincts of the Free Trade Zone at Jebel Ali, some 20 miles from Dubai city.

Since many foreign banks in Dubai operate as virtual OBUs already, the main advantage of the scheme for banks would seem to be that of tax exemption. The decree is cautiously referred to by the Free Zone authorities merely as a piece of enabling legislation at this stage.

Meanwhile, consultations are continuing with banks in Dubai in order to gauge reactions before full discussions are held with the federal central bank. Since tax is, strictly speaking, a federal matter, it could be argued that a tax relief measure issued by any individual emirate might not be in accordance with the UAE's provisional constitution.

However, since two other emirates, Fujairah and Abu Dhabi, have initiated tax-exempt free trade zones, it seems that the constitutional aspect is not a problem.

A constitutional issue with wider implications concerns the position of the UAE central bank. The limits to the powers of the central bank were illustrated in 1983 when the Dubai Government stepped in to rescue the Union Bank of the Middle East, and in 1985 when it took over Dubai Bank. The funds required to save the banks, and thus to protect the interests of depositors and shareholders, came from the Dubai Government.

The central bank - one of the few truly federal insitutions whose regulatory authority is recognised throughout the emirates - has not received from the various emirates the funding to which it is constitionally entitled. Thus it cannot act as a lender of last resort.

A rumour which circulated in Dubai some time ago had it that Dubai was contemplating the possibility of setting up its own central bank. A rumour it remains, though it can perhaps be seen as the expression of a widespread concern felt about the future direction of the federation. Any undermining of the central bank's authority would be a serious step for the federation.

The fairly straightforward operations of trade financing and retail banking which long formed the backbone of Dubai's banking business could be - and were - for long carried out without reference to any legal framework.

In 1985, the UAE enacted a commercial companies' law, but this has not yet been implemented. In the early 1980s, a number of companies got into difficulties which, in a Western country, could only be resolved by recourse to bankruptcy proceedings. No provision for bankruptcy exists in UAE law.

In one widely-publicised Dubai case, that of Abdul Wahab Galadari, it took a sheikh's decree to declare him effectively bankrupt. When his brothers' company, A R E Galadari and Brothers (AREG), subsequently got into difficulties, there was no decree. Creditor banks had an uphill struggle for two years to negotiate settlements, not all of them favourable to the banks.

The lack of a legal code, coupled with a concomitant absence of case law, places an undue burden on the judges, who are often required to make judgments in a legal vacuum. It is hardly surprising if some of these judgments come in for criticism. Eyebrows were raised last year when a DH263m claim by a syndicate of banks was dismissed by the court on what appeared to be a technicality.

A further possible drawback to the lack of a commercial legal code is that, as the Emirates rapidly develop, differing practices become accepted in the various emirates, creating divergences which could in time become difficult to standardise.

The interest rate question is a case in point. Dubai's trade, the litmus test of the health of the economy and of the banking system, shows a continuous upward curve, which is good news for the banks.

Trade finance business has improved since last year. There are also signs that property values are rising - up to 30 per cent during the past 12 months, according to some sources.

The problems that surfaced for many of the local banks in the early 1980s - such as non-performing loans, over-exposure, lack of adequate provisions, and the decline in the value of property used as security - have been faced, and individual solutions adopted. Nevertheless, local bankers admit that it will be some years before all are fully resolved.

Angela Dixon

Egypt

Reforms follow IMF deal

ON MAY 10 this year, Egypt and the International Monetary Fund, working under Paris Club arrangements, agreed a debt rescheduling and financial reform package which should be a first step to curing the country's trade deficit. It is already having a major impact on the banking and exchange rate system.

Even fewer details of the agreement were published than is normal in these cases, but it is accepted that it was very generous to Egypt. The country was given a five-year grace period, and then a five-year repayment schedule on $8bn of debt that was to have fallen due in the fiscal year that runs from July 1987 to June 1988. Total official debt is $44bn.

In return, the Egyptian Government agreed two major reforms.

First, it is understood to have promised to curb the expansion of credit. The IMF, wanting to reduce the country's rate of inflation (above 25 per cent) and encourage savings, has told the Government that it should either make interest rates positive or put a quantitative ceiling on credit.

The Government was not happy with the choice, because it felt that whatever it did would hinder the expansion of domestic investment, the corner-stone of its new economic policy. But in practice it seems to have opted for restricting credit, which it can do by giving direct instructions to the banks. To have altered interest rates, which is what the IMF would have preferred, would have involved a huge and very visible increase in a schedule of rates - paying 7 to 10 per cent to depositors - which had stood for at least 10 years.

Foreign banks are squeezed

THE EGYPTIAN banking system is divided between four major state-owned banks, a few specialist state banks, a number of private sector or private-foreign banks, and some 20 foreign branch banks.

The last category is allowed to do business only in foreign currencies: it may not lend in Egyptian pounds or do exchange business. Since the conclusion of the Egyptian Government's IMF deal in May, it seems to have lost much of its raison d'etre.

What happened was that, when it introduced the Free Pool Rate, the Government decided that it could not be applied to the purchase of foreign currency for repaying loans or paying letters of credit opened before May 10. Given that the foreign banks were not allowed to accept Egyptian pounds, and that their customers were no longer able to buy foreign currency on the grey market to repay them, the edict amounted virtually to a moratorium on private and public sector debt to the foreign banks.

Equally serious for the banks was that, with the Free Pool Rate being liable to depreciate, nobody wanted to incur any new debt in foreign currencies because of the exchange risk it would involve.

The foreign banks, naturally, have told the Government of their concern at these developments, and it is now understood that the authorities are introducing an amendment to the rules to allow 20 per cent of the money coming into the banks' pool to be used for the settlement of debts incurred before May 10. In effect, it will be changing a moratorium into a rescheduling.

This still will not help the foreign banks to generate new business, but it is not expected that they will leave the country or turn themselves into representative offices. Instead, it is thought that they will try to develop business helping exporters, who have an important role in the Government's plans for correcting Egypt's trade deficit and stimulating growth. They are also expected to build their fee business and correspondent banking relationships.

The second reform agreed by the Government involves a commitment to unify Egypt's multiple exchange rates. The step taken immediately by the Government was the closure of the free, or grey, market and the raising of the banks' exchange rate to a level very close to what would be the free market rate, were it still in operation.

The closure of the free market was achieved not only by the increase in the banks' rate, making it less competitive, but by the temporary imprisonment of some 450 money brokers under emergency laws relating to economic sabotage. The brokers had been supposed not to be dealing in cash. Although the brokers originally imprisoned were soon released, pressure on them is maintained by the arrest of a few of their fellows from time to time.

As it stands, Egypt's multiple exchange rate system has four layers:

- **40 piastres to the US dollar:** used exclusively in the calculation of barter deals with East Bloc countries.
- **70 piastres to the dollar:** used by the central bank and some other government agencies. It applies to oil revenues, all capital and current expenditures of foreign oil companies (which are transacted through the banks, though the exchange profits on each deal are transferred to the Government); cotton exports, handled by a state monopoly; and Suez Canal dues. Revenues from these sources, which should amount to about $2.8bn in the current financial year, go to service the Government's foreign debt, finance the state's own imports, and pay for certain "strategic commodities", notably wheat, which the Government, in effect, subsidises.
- **E£2.20 to the dollar - the Bank Free Pool Rate:** the amalgamation of the free market rate and the banks' rate, which before May had been E£1.35 to the dollar. It applies to private and public sector import and export transactions (other than the special categories listed above), tourist spending (which may be close to $2bn this year), the remittances of Egyptians working abroad, and Egyptians' foreign travel. The flow of money through this pool of foreign exchange is thought to be running at $3bn-plus in 1987-88.

Before the Bank Free Pool Rate came into being, the banks' rate of E£1.35 to the dollar was supposed to apply to all transactions now done at E£2.20. In practice, most of the tourist and remittance money went into the free market.

The Free Pool Rate is set every day by a committee of central bank and commercial bank officials. Since May it has floated only between E£2.17 and E£2.22 to the dollar. It is thought that it reflects neither the parity of the dollar in international markets, nor Egypt's rate of inflation, but rather the local market demand for foreign exchange. Given that there is no serious shortage of foreign exchange in the private sector at present, the rate is felt by bankers to be realistic.

The main reason for the Government's not allowing the Free Pool Rate to be determined by the market is thought to be the authorities' aversion to letting any part of the economy fall outside their control. After two decades of socialism - the mid-1950s to the mid-1970s - officials have little understanding of the use of a free market.

- **E£1.75 to the dollar:** The IMF agreement in May left certain transactions at the old banks' rate of E£1.35 to the dollar; this rate is now being raised in steps, to be united with the Free Pool Rate early next year. The rate has reached E£1.75 to the dollar, and is used for customs duties, airline tickets and transfers, and the banks' own books.

In theory, by November 1988, all of Egypt's exchange rates should be unified - with the exception perhaps of the unimportant 40 piastre rate used in barter deals. However, there are doubts among bankers about whether this will happen.

The Government has the first, and relatively minor, interest in maintaining the official 70 piastre rate, because in this way it makes a profit on the quite substantial inflow of foreign oil concessionaire expenditures. More important, it fears that a unification of the exchange rates would create social instability, because it would cancel the huge subsidies it gives its people on energy and basic foodstuffs. It remembers that in January 1977, when it mishandled the implementation of another IMF package supposed to reduce subsidies, there were serious riots.

It is quite likely that the Government will manage to comply with the IMF agreement simply by replacing its exchange rate subsidy with a direct cash subsidy. Alternatively, it may be that the IMF will be content to see the unification of a major part of the Egyptian exchange rate system, and for the time being will tolerate the Government's maintaining an exchange rate of its own.

Michael Field

The Maghreb

Tunisia meets targets set in stand-by deal

DESPITE THE sharp fall in oil prices last year, Tunisia and Algeria have both been able to avoid rescheduling their foreign debt.

About 40 per cent of Tunisia's foreign income is derived from the 100,000 barrels a day it has exported annually since the mid-1970s; and 97.8 per cent of Algeria's receipts abroad are from oil.

Morocco has been involved in the difficult exercise of rescheduling its foreign debt, since it ran out of foreign exchange just over four years ago.

Despite their differences, all three Maghreb countries have avoided the disruption caused by endless disputes with international bankers and runaway inflation which has characterised the situation of many major borrowers in the Third World.

All three, however, despite severely cutting back on their imports, will continue to require large flows of capital from abroad, be it through the International Monetary Fund, the World Bank, international banks, or state lenders through the Club of Paris.

Tunisia has been the luckiest of the three, both in the speed with which its leaders worked out an austerity plan when they ran out of foreign exchange in June 1986, and in the volume of capital they have been able to mobilise from their western and Arab friends.

Thanks to a good year for crops, a record tourist season, the higher price of oil and a devalued dinar, which has boosted exports, Tunisia is meeting all the targets set out in the stand-by agreement it signed with the IMF last autumn.

The budget deficit as a percentage of GDP will be trimmed to 4 per cent this year, from 1986's 5.3 per cent, while the trade deficit has been reduced by just under a third to TD318.2m for the first six months of the year. GDP growth, though, is expected to reach 6 per cent.

Tunisia will, however, have to come to the market for US$150m later this autumn or next winter, and repaying a SDR218.4m loan to the IMF will be no easy task.

The austerity of the past year or so has visibly cut living standards, but the progress of the reforms introduced to liberalise an economy too long dominated by large state companies will be slow. It is unlikely to succeed if strong support is not forthcoming from the country's western and Arab creditors.

A foreign debt of TD4.7bn suggests that Tunisian leaders have trodden a cautious path. Such caution remains, in many ways, the hallmark of North Africa's smallest country.

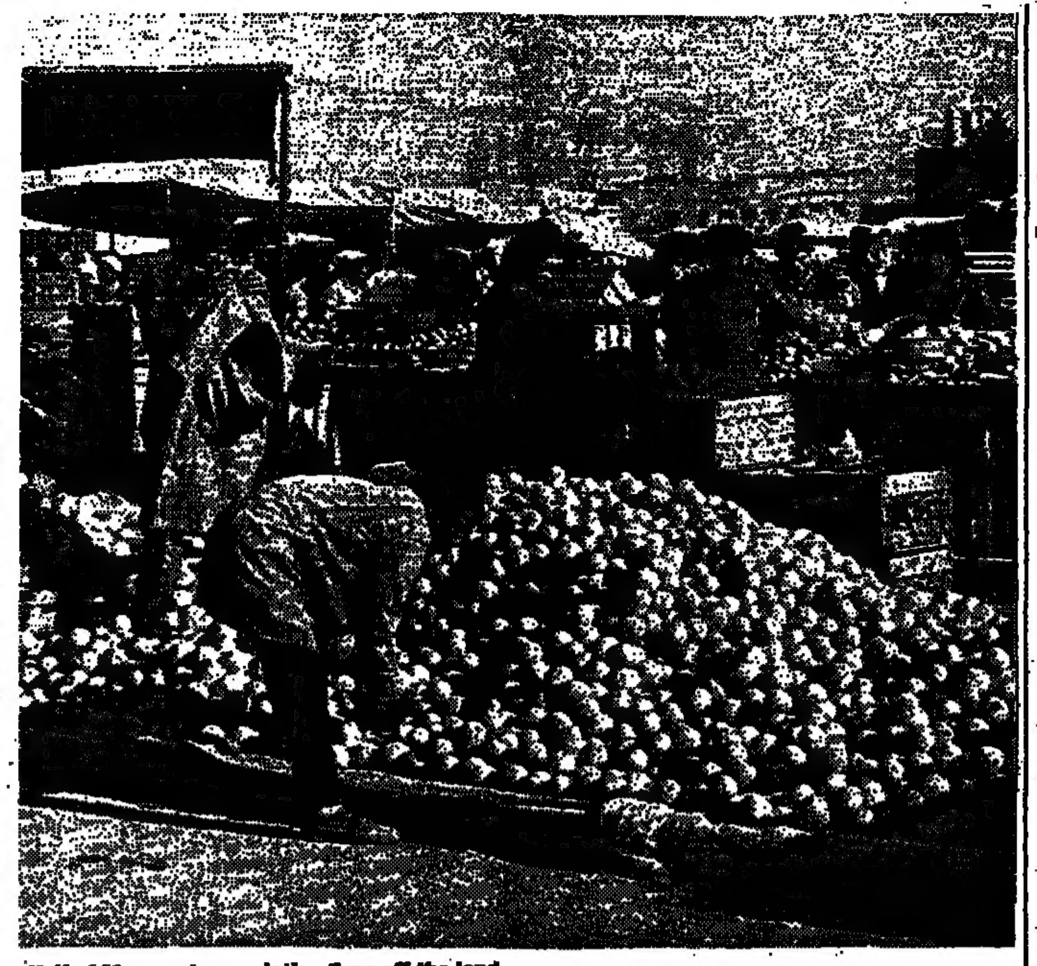
Maintaining the international credibility of its economic policies remains a cornerstone of Algeria's foreign policy. Hence, the rumours that have surfaced from time to time, suggesting the inevitability of the country's having to reschedule its foreign debt, have proved ill-founded.

In the wake of the collapse of oil prices, Algerian leaders trimmed imports by 27.6 per cent last year, but a large volume of trade arrears did build during the winter, many of which have now been cleared.

However, as the hydrocarbons sector, up to last year, accounted for roughly half of GDP, the events of 1987 cut growth to virtually nil. For the first time since the quadrupling of the price of oil in 1973-74, Algeria's GDP failed to expand as fast as the country's population, which is increasing at a rate of 3.2 per cent a year.

The events of last year have sharpened the ongoing debate about the reforms needed to improve the management of the country's economy. Six bills, which if passed will significantly increase the freedom of public sector managers, have been submitted to the National Assembly. The role of the chambers of commerce has been rehabilitated, alongside that of the private sector. The straitjacket of rigid state capitalism, bequeathed by former President Houari Boumediene, has not proved amenable to piecemeal reforms.

A responsible attitude towards its foreign bank commitments remains the hallmark of the country's bankers and political leaders. Raising bank loans these past 12 months has been an increasingly difficult task, although Japanese and French banks have proved more forthcoming than their British, US and German counterparts. A first ever co-financing with the World Bank is due this autumn, the Bank seemingly very happy about its growing lending to Algeria.



Half of Morocco's population lives off the land

The country's foreign debt remains heavy, estimated at some $19bn. It will cost $4.7bn to service this year and next, of which interest payments will account for $1.3bn. While the value of Algeria's oil income declines, at least in dollar terms, that of its debt, about of half of which is reckoned to be denominated in US dollars, will also fall.

Servicing this debt cost over 50 per cent of goods and services in 1986, and a little less this year. As exports will probably top $8bn this year and imports not be allowed to rise much above $7bn, a trade surplus of $1bn is on the cards. Hard currency reserves of $1.6bn (exclusive of gold, which is valued at current prices at $2.5bn) are somewhat healthier now than they were earlier in the year.

However responsible Algerian leaders have shown themselves in managing their debt, the more they have to repay, the less they import and the more difficult it becomes to avoid throttling the economy, let alone reforming it.

Being orthodox where the management of its foreign debt is concerned has not earned Algeria much kudos from international bankers.

Morocco, for its part, has had to throttle public spending for the past few years. This may have cut the budget deficit, but it has built up arrears, both external and domestic. A price has also to be paid in the future for low state investment in many sectors.

A good crop last year (half of the kingdom's population lives off the land), the fall in the price of oil and the US dollar interest rates, when combined with a better export performance, have helped the economy. But the burden of the conflict over the future of the Western Sahara continues to weigh heavily.

Morocco's foreign debt of SDR13.6bn is roughly equivalent to the country's GDP, but various successful attempts at rescheduling it have alleviated, by as much as half over the past two years, the heavy burden of servicing which now costs just over one-third of the exports of goods and services.

While international banks have been reluctant to lend other than short term money, the World Bank, the IMF and the kingdom's western and Arab state creditors have proved extremely generous. And in the past four year the Club of Paris has made an unprecedented effort in favour of Morocco.

Here again, as elsewhere in North Africa, reforms are in progress. In Morocco, the widening of the tax base could provide a key to a more stable development of the economy, but outside factors will continue to weigh heavily. Since 1983, it is worth noting, the very good relations between leading Moroccan banks, notably the Banque Marocaine du Commerce Exterieure, and foreign banks have helped the country.

In Algeria, the banks play an important but behind-the-scenes role. Lack of accurate up-to-date financial information is a far more serious constraint, but one which may lessen soon, as major international organisations produce figures of Algerian foreign debt that are less at variance with one another than in recent years.

Francis Ghiles

Jordan

Reform the quiet way

THE JORDANIAN banking system is slowly being liberalised - though the Government feels no sense of urgency in the matter and the commercial banks, despite their complaining about the controls imposed upon them, seem unprepared for life in a freer environment.

Few people are bold enough to use the word "deregulation", and anyway the process is so gradual and uncertain that it hardly deserves so definite a title.

The most recent significant change occurred last year, when the central bank freed the commercial banks to pay whatever interest rate they liked on deposits of more than JD200,000 (about $580,000). For smaller deposits there remained a limit of 7.5 per cent which, given the central bank's reserve requirements of 6 per cent, entails an effective rate from the banks' point of view of 8 per cent.

On lending, the central bank kept a limit of 9 per cent - 8 per cent interest, plus 1 per cent of permissible fees. It happens that 9 per cent is the rate which an old Ottoman law, still in force, defines as the point above which the interest becomes usury. To abolish the limit and allow banks to charge whatever they liked would therefore require a change in the law, not just a decision at the central bank.

Apart from the legal problems, there is the matter of the burden that deregulated interest rates might impose on industry.

The Government likes very much to encourage banks to lend to second- and third-class borrowers, who might not be ideal risks but would play a role in stimulating the Jordanian economy which, like others in the Middle East, is in severe recession. At present only the best borrowers get loans, because the banks find that the spread between the maximum deposit rate, which they pay to a large proportion of their customers, and the maximum lending rate is too small to justify their taking bigger risks.

It also discourages them from making long-term loans. Logically, the removal of the lending rate ceiling would encourage the banks to give loans to second-grade customers and lend longer term at higher rates.

Set against this is the fact that, for a country with zero inflation, Jordanian interest rates are already rather high. It is partly this, as well as the recession, that has stifled demand for industrial loans. Almost all the banks' current lending is for import finance.

The Government fears that, if it were to deregulate, the tendency would be for interest rates to rise on all loans - to good and less good borrowers alike. To back its view, it refers to what happened when it deregulated rates for deposits of over JD200,000. The banks immediately asked that the central bank impose some higher limit for these deposits. Then they started competing for the big deposits, despite the fact that most of them had more than adequate liquidity. In some cases they bid the rate up to 8.5 per cent, which gave them no profit.

The bankers themselves explain that the rates were bid up partly by a few weaker institutions that needed extra liquidity, and partly by all the banks finding it difficult to turn away long-standing customers. They say that their customers tell them they cannot possibly take their money elsewhere if they are told that the bank does not need their deposits, but then put moral pressure on their banks to pay them the best possible rate.

In contrast, the central bank believes that the banks have a rather provincial mentality, which is preoccupied with balance sheet size rather than profitability.

It is not much reassured by the fact that, recently, the rates being paid for large deposits have been falling; and the foreign banks, which have only a small share of the market, are paying less for deposits of under JD200,000 as well. This fall has been partly in response to the central bank's signalling that it would like to see lower rates by reducing the rates on new issues of treasury bills, treasury bonds and development bonds.

The bank says that it only reduced the interest limit on JD200,000 deposits as a test of the market's response, and that what happened in practice confirmed what it already knew. Therefore it is not prepared further to deregulate interest rates until there is a secondary market, for Government paper, which will give it the opportunity to influence the market more effectively than it has been able to do so far. (At present, the central bank does not offer even a discount facility for its paper, though it will lend to the banks against it.)

It intends that a secondary market will be introduced soon - all the paperwork for it has been finished. Then it hopes the market will serve as a model for a secondary market in corporate bonds and bills. Once the banks have this new source of liquidity and the authorities are able to control rates better, it may eventually deregulate interest rates.

The central bank says that it would like to see the banks be more "market minded". It noticed how accustomed the banks were to looking to above for directives, rather than dealing in a market, when early last year it stopped issuing comprehensive exchange rate bulletins, fixed for two hours, and started quoting just a dollar-Jordanian dinar rate instead. This forced the banks to introduce monitor screens and start employing dealers. Although at first their response was slow, now, according to the Central Bank, they are doing quite well.

It is hoped that the same mentality will emerge when a secondary market is created for Government stock.

The problem is that the banks are subject to many other controls. They may not lend abroad - Jordan has a comprehensive system of exchange controls, though this is easily evaded by individuals.

The Banks are also partly controlled by the authorities in what they do with their lending. Any loan over JD0.5m requires the central bank's approval, as does the size of each bank's annual dividend payment. The banks are obliged to put 4 per cent of their deposits into government bonds, and the same amount into treasury bills and public companies' bonds. Nine per cent of their shareholders' equity they must invest in shares on the Jordanian stock market.

The banks do not complain about these regulations; their income from government securities is tax-free, which gives them a yield equivalent in some cases of more than 12 percent. But the regulations help produce the very mentality that the central bank would like to see disappear.

Without a comprehensive programme of deregulation, in all parts of the system there are doubts as to whether the banks will ever become very market-minded. On its own, the decontrol of interest rates - if it happens - may not be enough to start them lending in a competitive fashion to the wide range of industrial customers to whom the Government would like them to lend.

Michael Field